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and BUSINESS ANALYST

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Season's Greetings

This year, — Christmas takes on a new meaning, for beneath the tinsel and the ribbon, we feel the quick heartbeat of those who are a part of us. Instinctively as we gaze with love and tenderness at their shining faces, our thoughts envelope them protectively.

And we know we are ready to do or die that no harm may come to them from any source whatever — that they, too, may experience the blessings of liberty and happiness, and the beauty of love as we have known it.

And so it will come to pass, — because the determination borne of love is unbeatable. Under such circumstances, neither fear or obstacles have meaning — nor can they hold us in check. We will meet each problem as it comes — and WIN.

•

Let us therefore, dear friends and subscribers — work together for the realization of the goals that give our lives meaning — that will make life worth living for those who come after us.

With all our heart we wish you a very Merry Christmas and happiness in the year ahead.

C. G. Wyckoff

PUBLISHER
MAGAZINE OF WALL STREET

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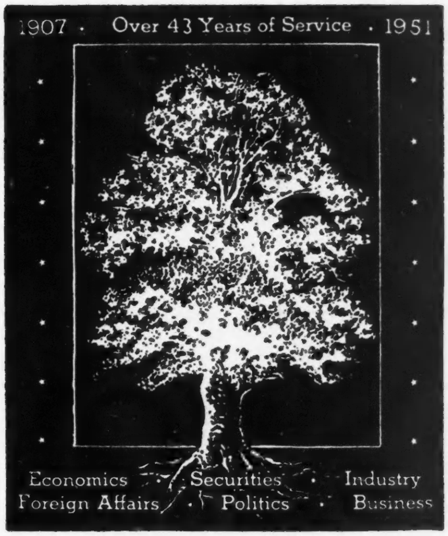
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher* E. A. KRAUSS, *Managing Editor*



The Trend of Events

"SICK AND TIRED" . . . We read in the papers that Mr. Keyserling, the President's top economic adviser, in a recent address declared himself as "sick and tired of hearing how much our defense effort will cost, and of how our foreign air program will bust us, with no attention to the consequences of a termination of that aid on the entire free world."

Knowing Mr. Keyserling's viewpoints, this comment is no particular surprise to us though it must seem strange to others, knowing that it comes from someone who surely must be aware that there is need and plenty of room for economy in all our Government operations without in any way jeopardizing the effectiveness of our defense effort, or of our aid program to the rest of the world.

His remarks obviously ignore the dangerous stresses and strains in our domestic situation created by the spiraling cost of living, the extreme burden of taxation, the controls of wages, prices and credit, as well as the allocations of materials. Spending for defense is admittedly necessary, but excessive and wasteful spending—and there is too much of it—endangers not only our economic and fiscal health but our very freedom.

We should make sure, therefore, that no more is spent than is really essential to defend ourselves, and that it is spent wisely and in the right place. If not, there is reason to be sincerely fearful of the weakening of America's essential strength; and this goes, too, for the kind of "master planning" that Mr. Keyserling advocates, and the new set of economics he is asking therefor.

Knowing Mr. Keyserling's basic thinking, many people distrust his "new economics for new problems" which, while he doesn't expressly say so, apparently aim at wrapping the many "highly desirable" components of the New Deal and Fair Deal into one neat, long-range package.

Businessmen and taxpayers know what that would mean to them. If Mr. Keyserling is "sick and tired" of spending criticism, how does he think *they* feel about his plans and ideas?

AS PERILOUS AS WAR ITSELF . . . that's what Senator Harry F. Byrd calls the threat to our nation arising from non-essential spending, governmental waste and confiscatory taxation. It's only too true. Even organized labor is waking up to this danger. Thus A.F.L. in its monthly survey points out that the American citizen today pays more money to the Federal Government for the "cold" war than he paid at the peak of military hostilities in World War II, that the per capita tax burden in 1952 will be $410 compared with $332 in 1945, and only about $40 in 1939. Even if the lower purchasing power of the dollar is accounted for, our defense effort plus foreign aid is costing us almost half as much as full scale military war in 1944-45. When state and local taxes are added, the total tax burden averages $532 for every man, woman and child in the country for the present fiscal year.

In support of his warning, Senator Byrd mentions the

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

startling fact that whereas under all the American presidents from George Washington up to and including Franklin D. Roosevelt, the U. S. Government collected from its citizens a total of $248 billion in taxes, between April 30, 1945, and June 30 of this year—all within the life of the present Administration—the Federal Government's total tax collections came to $260 billion. Thus in six years, the Truman Administration has taken more from the American people than all the domestic taxes our Government levied in the previous 156 years.

In this connection, consider the appropriations of the last three years which totalled $232.1 billion—an aggregate that comes all too close to our $256 billion national debt and to our $265 billion estimated national income. They averaged some $77 billion a year; and if the report is true that the Administration expects to cut defense appropriations by $10 or $11 billion, next year's budget will nevertheless approach this $77 billion average.

Even the layman will understand that we cannot long continue to spend at the rate of one-third of our citizens' total income. Time and again in Senate Finance Committee hearings, Treasury officials admitted that there is a limit to what our people can pay in taxes and still maintain a free economy, though they declined to estimate what proportion of the national income may be taxed away with safety. We think we are too close to the limit now, if we have not already reached it.

Perhaps that is why Treasury Secretary Snyder was recently quoted in favor of giving the American people "a mental rest for a couple of months" from thinking about taxes. If that implies that the Administration will later try to impose a yet heavier tax burden—President Truman is reported to plan just that—it would be a good thing if the people would indeed use this "breather" to think most intensely about taxes and especially what the tax burden is doing to them individually, and to the nation as a whole. If they do, there can be no doubt about their conclusions, and they should not fail to speak their minds freely to their senators and congressmen.

If they do, the time between now and the reconvening of Congress next January could be a turning point in the present trend of the national economy. The steady progress towards financial ruin might then be arrested. Non-essential and wasteful spending *must* be eliminated if we are to carry the defense burden without permanent harm to our economy. But, it seems, there can be little reduction in Federal expenditures until Congress regains control over them. For some time, it had not had such control over a large part of outlays.

EUROPE'S PRODUCTION DILEMMA . . . The large group of European industrialists and business men who are presently in America studying our production and distribution systems with the object of learning how to apply our methods to Europe's needs, actually will learn very little that they do not already understand. Fundamentally, they are quite aware of the reasons for the effectiveness of our formula which is, simply, to produce more and better goods at lower costs, at the same time raising wages and lowering prices. That we are having some difficulty in proceeding with our formula at the present time owing to current inflationary pressures is merely, we hope, a temporary phenomenon and does not in itself change our half-century old trend towards greater production and consumption.

This "secret" of our prosperity is one which we wish to share with the rest of the world and particularly with Europe, all the more at this time when the enormous pressures of the defense programs have imposed great strains on both the American and European economies. The inescapable fact is that Europe has arrived at a point where she must abandon her traditional methods of cartelization and limitation of competition if she is to survive economically. She must, at least in part, adopt our own system of free enterprise with its solid base of expanding production and consumption. She can no longer afford to hamper herself, especially now that the advantages of colonial exploitation are lost.

An illustration of the backward methods still in use in some European countries is the policy whereby Italian manufacturers deliberately restrict production in order to exact the highest possible price. Their interest, precisely opposite to the American system, is to secure a high per unit profit. Obviously, an economy of this sort cannot broaden the base of a nation's consumption, which is one of the reasons why Italy still has a record unemployment of two and a half million people. This short-sighted greed is a familiar phenomenon among many of Europe's industrialists, though, happily, the British and Scandinavian manufacturers show greater intelligence.

Europe's leading industrialists are beginning to appreciate the dangers in adhering to their old and essentially unprogressive methods but point out that they do not possess the freedom of action of their American counterparts and that they must operate in small countries, separated by many customs barriers, by currency differences, and by political and national enmities. For that reason, many have thought the true economic strength of Europe cannot be brought out until these barriers are breached and a European economic and political federation consummated.

This does not seem likely at any time in the near future. Nevertheless, the need for greater production remains, if the defense program is to be completed successfully without fatally weakening what remains of the European economic structure. In the meantime, it would seem that our own nation must resign itself to the necessity of continuing aid to the various European nations on a large scale and indefinitely.

That this will not be looked upon favorably by Congress which is soon to debate this proposition, is not to be doubted. Nevertheless, it will have to go along with the Administration, which is fully committed to large-scale aid, unless it is willing to risk what seems an approaching crisis in Europe's economy. With this possibility in mind, it is not difficult to see that it is not only to Europe's interest but to our interest as well that she abandon her old and unproductive methods and adopt ours, in conformity with her own needs. Difficulties abound in profusion before this goal can be attained but it is imperative that a genuine attempt be made.

As I See It!

By ROBERT GUISE

TOUGH GOING AT THE U.N.

The "little disarmament conference" at Paris has come to an end with the anticipated results: The Big Four found it difficult to agree even on how their disagreement should be outlined. To most observers, this came as no particular surprise. The discussions got under way in an aura of unreality based on full recognition of the fact that the cleavage on the disarmament issue could hardly be narrowed, let alone bridged, so long as East and West face each other in hostile postures in so many critical areas in the world. It is axiomatic that any reduction of arms would imply confidence. But confidence is nowhere to be found. In its absence, disarmament or arms reduction even on a horse trading basis would seem highly unrealistic, and therefore improbable.

Yet the West had to go through the motions if only to prove its good faith, to convince the world that it is willing to offer a real basis for disarming if the Soviet Union would be responsive. As such, the arms talks also provided a test of Soviet aims, and the test proved the Kremlin's unwillingness even to discuss disarmament except on its own impossible terms. This being so, the talks were bound to be a failure. They probably would never have been undertaken in the first place if the Big Four hadn't talked themselves into it with their presentation of rival plans.

In effect, the smaller U.N. nations told them to "put up or shut up" by forcing them into secret sessions to discourage propaganda statements and providing an impartial chairman to cut off irrevelant argument. In a way, the move reflected impatience with long-winded and purposeless discussions before the U.N. assembly which realized only too well the real purposes behind the two disarmament proposals. Our own plan, while bona fide, also had the objective of wrestling the "peace initiative" from the Soviets. Principal aim of the latter's plan was propaganda and to stir up squabbles between the USA and its allies.

"THE KEYSTONE"

From The Christian Science Monitor

One can be certain that the latter aim has by no means been given up by the Russians. They have been biding their time, hoping that the western allies will get into quarrels among themselves which Vishinsky would be quick to exploit. Some friction has already occurred in connection with the voting to fill vacancies in various U.N. organs, particularly the Security Council, with the U.S.A. suffering a sharp diplomatic setback when Latin Americans as well as most of our western allies voted against our candidate.

There have been other evidences that certain U.N. delegates, though fundamentally or avowededly on our side, retain a professional attitude towards Soviet techniques. Some go even further, such as the Arab-Asian bloc which has displayed a tencency to kick the western powers whenever it gets a safe opportunity. Introduction of their resolution which forced us into the secret arms talks must be viewed in this light.

All of which makes one question the usefulness of the U.N. in our fight against the Soviets. The latest voting affair is said to have left unpleasant after-tastes among the non-communist majority which privately contends that we bungled in opposing Byelorussia as a candidate for the Security Council. It is difficult to see the logic behind such reasoning. Being virtually at war with Russia, we should hardly be expected to vote for her stooges.

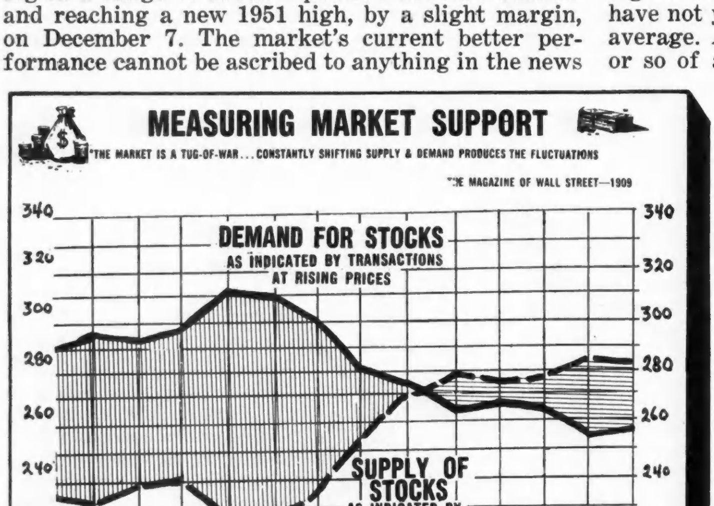
Presumably the resent- (*Please turn to page* 302)

Realistic Approach To New Selectivity

The market has rallied substantially, but within normal technical limits, from the November lows. Further immediate recovery probably would tend to limit the usual seasonal year-end improvement generally expected. The balance of supporting and restraining factors suggests no more than fairly moderate up and down swings for some time, with emphasis on selectivity.

BY A. T. MILLER

There has been a material recovery in average stock prices during the past fortnight, following a demonstration of adequate support over a preceding four-week period. This is the first time since the start of the October sell-off that a rally has developed any vigor as regards either scope or trading volume. At the best levels reached late last week, the industrial average had made up 57.5% of its total October-November reaction and the comparable figure for the rail average was 66.6%. The utility average has been notably steady for some time, holding in a range of about 2 points since late October and reaching a new 1951 high, by a slight margin, on December 7. The market's current better performance cannot be ascribed to anything in the news or to any change in present and prospective basic economic-financial factors. Therefore, it can only be due to a shift, at least for the time being, to a more hopeful sentiment on the part of traders and the minority of investors influenced by technical indications. Whether it can develop into anything more than a limited trading-range swing is, of course, an open question at present; for the significant supply levels—represented by the approximate September-October double top of the industrial average and by the October rally high and last February's major high of the rail average—are yet to be tested. They have not yet been even closely approached by either average. A recovery of something up to two-thirds or so of an intermediate reaction would be within merely normal technical limits. Assuming for the moment that the recovery goes further, as is certainly possible, the closer the averages get to their previous highs, the more stock will have to be absorbed.

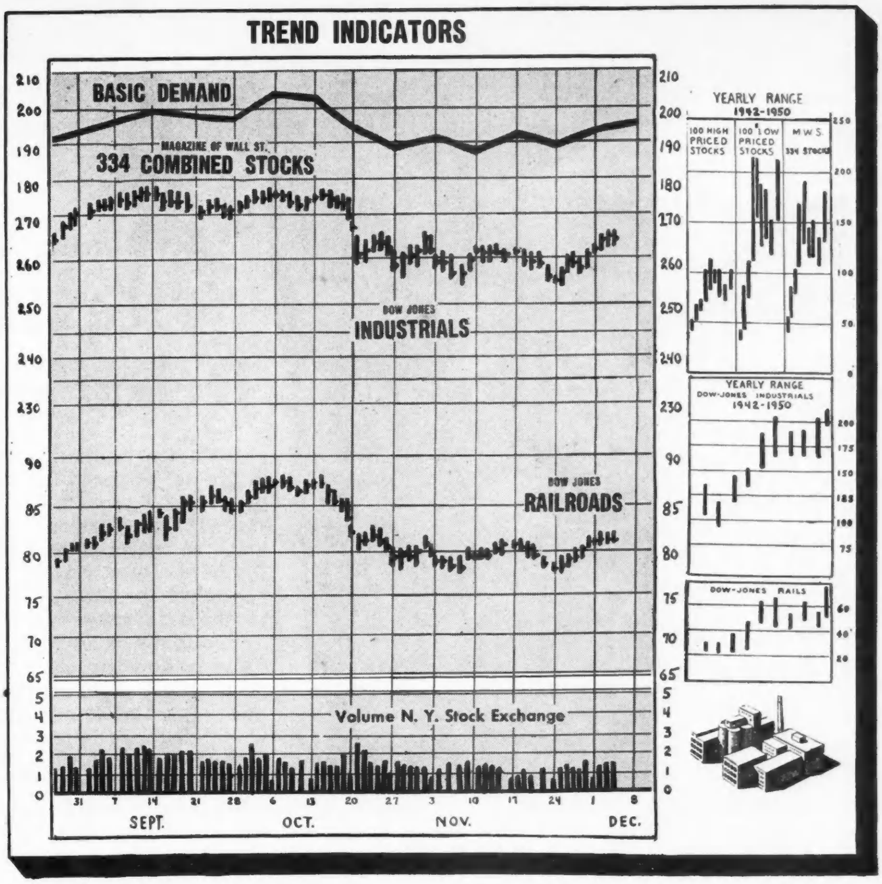


Reasons For Better Action

The main reason for current better action is to be found within the market itself. As we pointed out in our discussion a fortnight ago, the four weeks to November 24 added only about 2 points to the industrial average's 18-point decline of October and an equally indecisive amount to the prior decline in rails. A market which does not break downward out of a narrow trading range, in several weeks of testing, when there are apparent excuses for doing so, is always subject to at least a good rally, initially touched off by buying by professionals who are impressed by adequately demonstrated support in a test period. Additionally, there has been more or less improvement in stock prices, nearing the year-end, in the great majority of past years, although the latest recovery started a little sooner than purely seasonal year-end moves have generally done.

Since an upward seasonal bias is normal in at least some portion of December and the early part of January, not much prophetic significance should be read into strength of stock prices

around this time of the year. In any event, the subsequent performance, after early-January reinvestment demand is out of the way, will have more bearing on the underlying stamina of the market; as would also a closer test of the earlier highs in the averages, as noted earlier in this analysis.



So far in 1951, the maximum range of the daily industrial average, measured from low to high, has been less than 16%, a narrower range than in some years. We continue to expect nothing worse, or better, than fairly moderate trading-range swings either way. At least from a medium-term viewpoint, barring some unpredictable and serious foreign news shock, we are unable to see a basis dynamic enough on the favorable side to support a sustained major advance from the November lows. On the other hand, we are equally unable to see a basis for a serious and sustained liquidating movement. In this view, the greater part of funds allotted for equity investment should continue to be held invested in good stocks, particularly where objectives are long term, along with reasonable reserves both as insurance against unforeseeable foreign contingencies and in order to take advantage of future buying opportunities. In this view, moreover, selectivity in making portfolio changes will have more to do with investment and speculative results attained than with the probably limited swings in the averages.

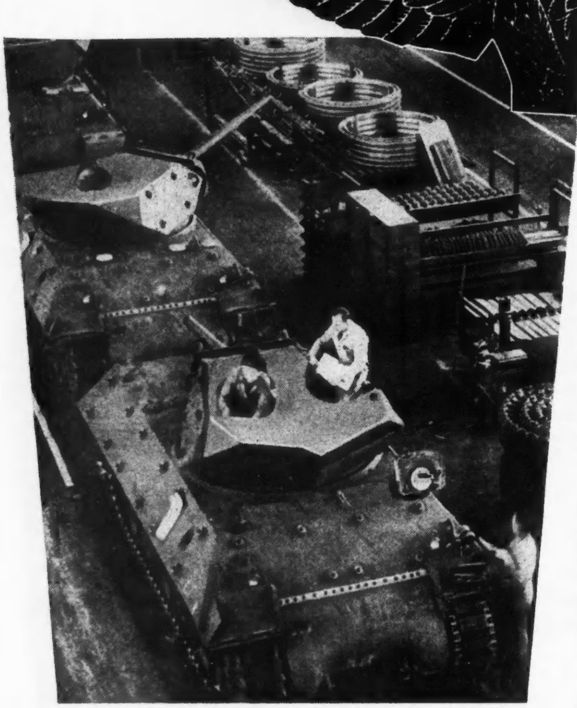
In the week ended December 8 there was the familiar mixture of new highs and new lows for the year in individual stocks; but with the new highs more numerous than the new lows for the first time in some weeks. In the same period, stock groups showing above-average strength included rails, cement issues, radio broadcasters, oils, chemicals, air transport, liquors, paper and radio-video stocks; while among the most laggard groups were gold mining stocks, flour milling, coal, food chains, motion picture stocks and soft drinks. Among income stocks, utilities and finance-company issues remain in favor.

On The Encouraging Side

Prior to this rally, the market had to contend with the sharp impact of higher taxes on earnings, as visibly brought out in the third-quarter profit statements; with some dividends cuts here and there but mainly in the form of smaller year-end extras than were voted a year ago; with a considerable volume of new corporate bond financing at the highest interest rates in many years and with some preferred stock financing at rates as high as 5%; with deflationary adjustments in a good many lines of civilian business; with continuing uncertainty about the outcome of the Korean truce negotiations; and with foreknowledge of a 1952 first-quarter Federal cash surplus which is now calculated to take between $5.5 and $6 billion of cash out of corporate and individual hands. In the face of all of that, plus tax selling, no significant dislodgement of stock holdings was induced, following the late-October fall of about 6.5% in the industrial average. That fact is encouraging at least in its bearing on the market's downside vulnerability at present. Even in cases where current earnings are seriously depressed, as in textiles, liquidation has been less than might have been expected; and in the case of depressed video earnings, there has been considerable speculative willingness to buy on long-term possibilities.

On the other hand, demonstrated support under test is essentially a negative consideration. On the positive side, earnings and dividends are of primary importance; and in the general 1952 outlook therefor, there is certainly nothing to get enthused about. Total 1952 earnings and dividends seem bound to be at least moderately under this year's levels which will be well under the 1950 peaks.

It is true that even on the basis of probable 1952 results, price-earnings ratios are fairly moderate and dividend yields reasonably good; but that is a better argument for holding good stocks bought lower than for fresh buying. Moderate price-earnings ratios and relatively generous stock (*Please turn to page* 302)



Economic Implications of

Revision In Defense Spending

By E. A. KRAUSS

As the debate over guns vs. butter is again heating up amidst sharp differences of opinion regarding the conduct and success of the rearmament program, we are also told that military planners are preparing to cut the next fiscal year's military budget by as much as $11.5 billion below this year's.

This is said to be possible without any fiscal hitch in the "orderly" build-up of our military strength, or without interfering with the foreign aid program. The new military budget, it is said, will have a tentative ceiling of $45 billion exclusive of foreign aid. The latter's inclusion, about $8 billion, would bring the total to some $54 billion compared to the $65.5 billion authorized by the last session of Congress.

At first blush, this would seem to point to a definite reduction in defense spending but this is not the case. It does imply, however, official recognition of the well-known fact that if arming is to go into higher gear, it will have to do it foremost at the production end, not in mere appropriations. The latter have been heavy enough.

The reasons for beginning a levelling off in armament authorizations earlier than expected thus are twofold. One is that because of long "lead times" in the production of aircraft, tanks, ammunitions and other "hardware", funds already authorized cover much of the scheduled expansion of the services and their weapons.

Probably of even greater significance is a growing awareness among defense officials that unless military demands are regulated and spaced, a breaking point in the civilian economy might result in the loss of public support for the long range preparedness program. There is additionally awareness that next year is an election year with Congress probably loath to increase taxes or to vote huge sums unless the nation is at war; and there is growing consciousness that we cannot afford to allow the communists to win a "victory by bankruptcy."

Reducing next year's defense budget by some $11.5 billion thus is thought to be a judicious move, minimizing political strains all around without jeopardizing the arms program. For while such a cut would reduce the prospective budget deficit, perhaps materially so, and hence lessen inflationary pressures arising from deficit spending, it would signify no interruption of actual defense spending for some time.

Even if actual military outlays in the current fiscal year come to $44 billion, the probable maximum, the military at the start of the next fiscal year will still have a balance of some $68 billion in authorized but unexpended funds.

Thus the size of the requested appropriations for fiscal 1953 *will have little to do with actual spending.* Appropriations already made are far more important than any tapering of expenditures in fiscal 1953. Because of the slowness in the placement of contracts, and in their execution, billions are still contractually uncommitted.

In other words, the pump is well primed and the defense program by now has acquired its own momentum; nothing but a full war could greatly alter its pace in the year ahead. Hence it is possible for appropriation requests to decline while actual spending rises. Spending dollars will gush forth though authorizations diminish. Eventually of course, spending will also decline if appropriations remain at the lower level contemplated for fiscal 1953; and any further if moderate lowering would bring a balanced budget within sight, provided that tax revenues hold up.

Spending Rates—Past and Future

In the last two fiscal years, military appropriations have totalled some $118 billion or roughly an annual rate of $60 billion. Actual spending in fiscal 1951 came to about $19 billion and in the current fiscal year will probably total about $44 billion. In fiscal 1953, the actual spending rate may rise to $60 billion and thereafter taper back towards $40 to $45 billion.

Obviously the military by asking for money faster than it could be spent has assured itself of plenty of spending money at a time when appropriations were easy to get through Congress. Now that things are a little more difficult, the smaller appropriations scheduled for fiscal 1953 involve no sacrifice in spending plans.

Together with the revived guns vs. butter controversy, it does however raise an interesting question: How much can we spend for arms in any one year without upsetting the civilian economy? It is a problem to which the mobilizers are by no means oblivious. It is in fact a prominent element in the guns vs. butter debate. Clearly, in the limited type of mobilization now under way, we can and should have both guns and butter though someone must realistically determine the proper proportions or run the risk of jeopardizing our security. It's no easy task.

How Much Can We Spend?

There are indications that it was once thought that we could easily spend better than $50 billion, perhaps $60 billion annually, for defense without unduly adverse repercussions in civilian industries. Today there seems less conviction that this can be done, certainly not for any protracted period. Hence top mobilization officials in the face of resounding criticism still cling to the defense program's basic premise: sustained civilian production wherever possible.

Chances are that regardless of urgings to go more all-out, the Administration won't budge easily. It feels that politically it has gone about as far as it can go. The contention moreover is that civilian output so far has not interfered with military production.

There can be little argument about this contention; it is fairly obvious that where military production suffered, it was due to faulty planning and specific bottlenecks rather than a general lack of materials. The armed services have been getting all the materials that they really needed. While some unrealistic schedules have not been met, it was not because of pre-emption of supplies for civilian industries.

Doubtless the mobilizers have a great deal of logic on their side when they argue that there was no point in decreeing an all-out armament effort which would have caused widespread unemployment and precipitated economic crises of all kinds. Such a course certainly would have made incalculably steeper the already too heavy burden of taxation while cutting off tax revenues through a rapid decline in national income. Doubtless, also, under the middle-course now being followed, we will have a bigger industrial base from which to produce in case of full-scale war.

The middle-course, however, is bound to limit our spending potential. Obviously we cannot spend more than $50 billion a year for arms without squeezing the civilian economy painfully. While there is still some leeway since current arms deliveries run considerably below any such figure, once it is approached, civilian output will have to be cut, and cut deeply.

Behind the intended cut in next year's military appropriations is seen a desire to stretch out defense spending over a greater number of years, providing adequate arms but with less strain on the economy in any one year, stemming from realization that we cannot have more all-out production and a fairly healthy economy as well.

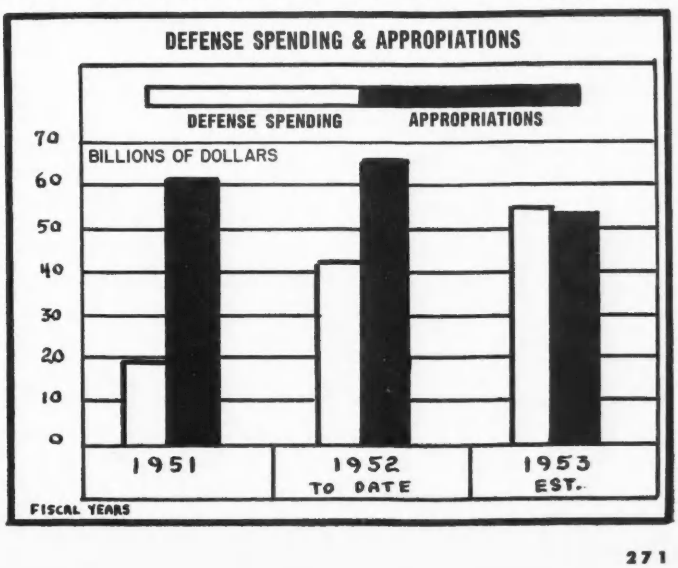
Quite probably, there has been no decision just how big an amount we will spend annually for defense. Estimates at any rate vary considerably and are anything but "firm" figures. As already stated, under existing appropriations it could rise to $60 billion or more but outlays of such magnitude may not prove feasible. How far we can go is for the future to tell. The trend of future arms production, of actual spending on basis of deliveries, will show what kind of spending ceiling we shall likely have.

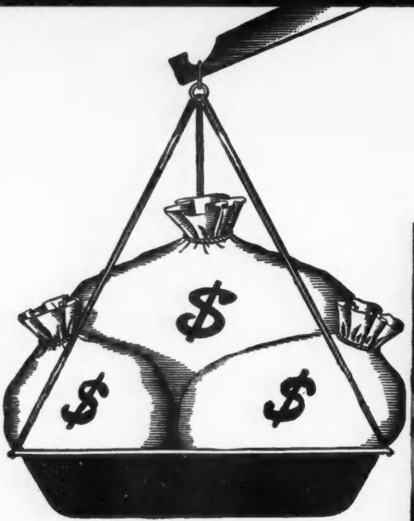
Right now, delivery of new weapons is said to be running at a rate of $1½ billion monthly; that next year, the rate should hit $3 billion a month by spring or early summer; and that the peak, in 1953, will be as high as $4 billion. That rate should be well above the actual spending rate which is possible because many contracts are financed by progress payments and other advances, even before delivery is taken. Actual spending in fiscal 1953 for all kinds of military outlays should not exceed $55 billion, of which only about $22 billion is expected to be for major procurement and production costs.

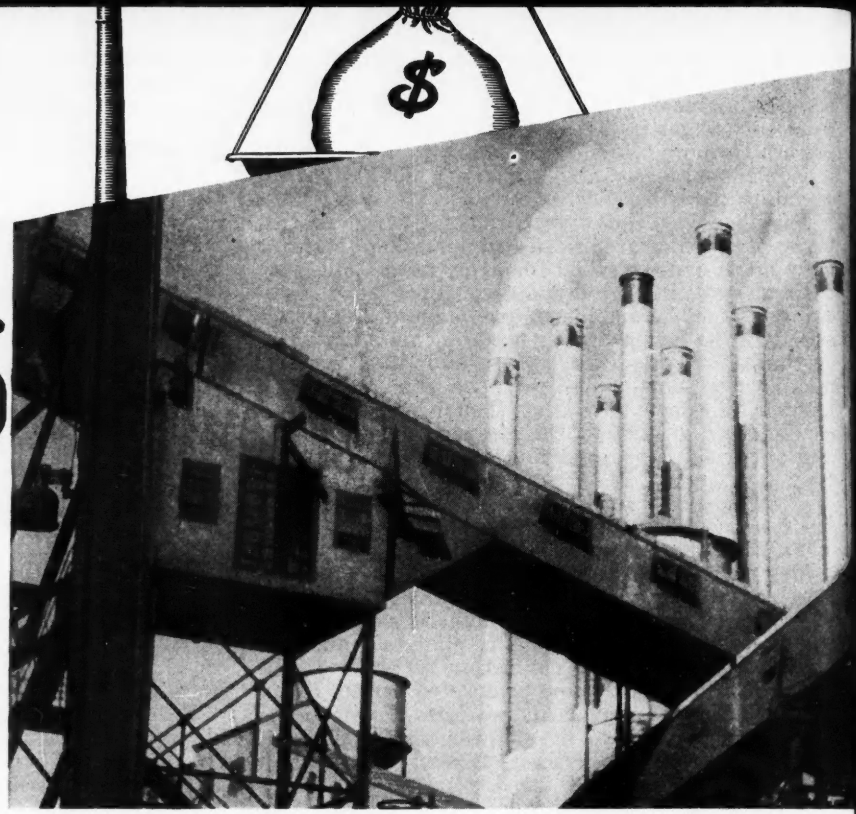
Even with reduced appropriations, which after all could always be enlarged in case of real need, the military will have plenty of money to spend. This is what places the President in a position to make an economy gesture in his next budget, reducing the book deficit and moderating the pressure for tax increases. If this is to come about, however, we venture to suggest that it would automatically presuppose some sort of a ceiling on military spending, a ceiling around a level that would permit continuation of a guns-and-butter economy, the aforecited middle-road course.

A Ceiling on Defense Spending?

Naturally, since the basis of the business boom is defense spending, any shift of accent—or better perhaps, retention of the existing accent—may lead to interesting speculations. A spending ceiling of $54 billion (including foreign aid) maintained over a few years would (*Please turn to page* 308)





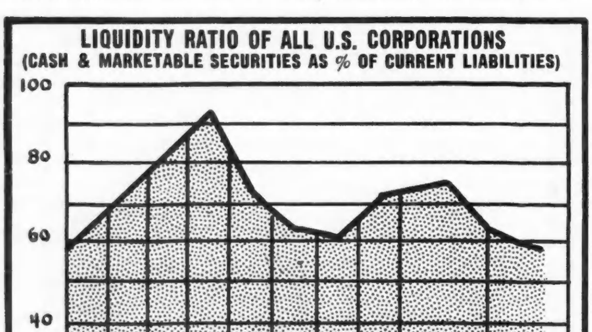


Declining Corporate Liquidity

By WARD GATES

During the past year, corporations have been losing liquidity at a rapid rate. Nor is there any prospect that this situation will improve during the next few months, as the strain on corporate cash position grows.

Measured by the ratio of cash and marketable securities to current liabilities, corporate liquidity started to decline with the beginning of the Korean war. This immediately imposed a burden on industry which was forced to use increasing amounts of cash to acquire materials in a sellers' market. At that time, cash resources and the equivalent marketable securities of all U. S. corporations amounted to 73% of current liabilities but this ratio declined sharply by the end of the June, 1951, quarter when it was down to 59%. While net working capital increased during this period from \$73.8 billion to \$79 billion, the increase was more than accounted for by a jump in inventories amounting to \$13.3 billion.



Thus far, this increase in inventories has not been digested nor it is likely to be to any appreciable extent in the next half year, bringing with it a threat of a tight squeeze on working capital. For many companies, this problem will be more acute than at any time in the past decade.

Growing Drain on Cash

Tightness in the cash position of industry finds its roots chiefly in four factors: increased labor costs accompanied by a more or less inflexible price ceilings; burdensome inventories; high taxes, and the need to provide funds for plant expansion and the acquisition of new equipment. The combination of these factors, operating simultaneously, is producing cumulative pressure on cash resources and compelling companies to resort to bank loans and new financing to an increasing extent as they commence to find retained earnings and depreciation reserves inadequate.

Looking at these four factors more closely, it is evident that there is little prospect for near-by relief. Labor costs are mounting which is contributing to the higher cost of doing business. With price controls still fairly stiff, every wage increase now has a direct effect on corporate liquidity. When to this is added the necessity of carrying high-priced inventories, it is not difficult to see why the drain on cash is increasing. Unless these inventories can be adequately reduced, they tend in a sense to become

"fixed" assets and are carried at high cost. Of course the situation could be ameliorated in a period of declining prices or business volume, in which case accumulated goods could be turned partially into cash but this could only be at the cost of profits.

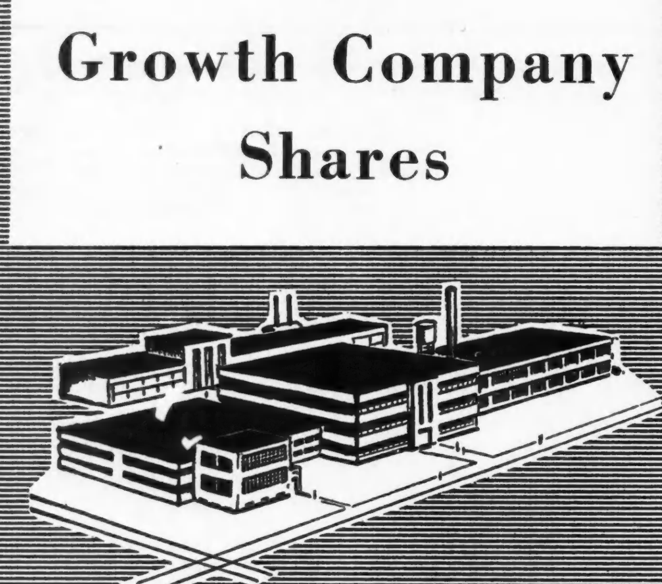
In the meantime, the higher cost of doing business is evidenced by a decline in the ratio of pre-tax profit from 14.9 cents on the sales dollar in the last quarter of 1950 to 12.9% in the second quarter of this year. At the same time, the post-tax profit ratio has dropped during this period from 7.6 cents on the dollar to 5.8 cents. This trend has undoubtedly continued in the last half of the year.

Working capital requirements are now considerably increased by rising taxes, and the new revenue law, through the so-called Mills amendment, will intensify this situation in the first half of 1952. During that period, corporations will have to pay 70% of their 1951 taxes, against 60% in 1950, whereas in former years, corporations were allowed to spread their payments out evenly over the four quarters of the year. (*Please turn to page* 309)

Recent Balance Sheet Changes of Representative Manufacturing Companies

	Cash & Marketable Securities	Receivables	Inventories	Current Assets	Current Liabilities	Net Working Capital	Current Ratio	Ratio of Cash & Sec. To Current Liabilities	Long Term Debt	Capital and Surplus	Total Assets
	(Millions)								(Millions)		
Addressograph-Multigraph											
July 31, 1950	$ 10.2	$ 6.6	$ 8.8	$ 25.6	$ 7.5	$ 18.0	3.4	**136.0%**	$ 2.5	$ 24.3	$34.4
July 31, 1951	11.2	9.8	13.5	34.6	14.7	19.9	2.3	**76.2**	2.5	26.6	43.8
American Brake Shoe											
Sept. 30, 1950	9.4	10.6	12.9	32.9	10.6	22.3	3.1	**88.7**	....	43.2	73.6
Sept. 30, 1951	9.9	14.7	19.1	43.9	18.8	25.0	2.3	**53.0**	....	45.7	84.3
Armour & Co.											
July 29, 1950	34.4	71.7	167.4	273.6	107.5	166.1	2.5	**32.2**	142.5	123.0	460.0
July 28, 1951	27.0	73.4	216.3	316.8	152.4	164.3	2.1	**17.8**	139.2	138.4	514.2
Bigelow-Sanford Carpet											
Sept. 30, 1950	2.8	14.0	23.1	40.1	12.9	27.1	3.1	**22.4**	4.8	39.2	60.9
Sept. 29, 1951	2.3	9.6	40.7	52.8	17.1	35.7	3.0	**14.0**	17.0	39.7	77.8
Borg-Warner											
Sept. 30, 1950	80.7	30.3	35.1	146.3	48.4	97.9	3.0	**166.7**	....	128.9	196.3
Sept. 30, 1951	70.3	39.1	52.1	161.7	66.5	95.2	2.4	**105.7**	....	132.8	221.1
Carpenter Steel											
June 30, 1950	6.3	2.3	7.1	15.9	4.8	11.0	3.3	**132.6**	....	16.4	21.9
June 30, 1951	13.7	3.2	7.2	24.4	10.3	14.1	2.3	**134.0**	....	19.8	30.7
Caterpillar Tractor											
Sept. 30, 1950	23.3	29.1	64.5	117.0	25.1	91.8	4.6	**92.8**	19.0	134.7	178.9
Sept. 30, 1951	8.9	10.3	104.6	123.8	48.8	75.0	2.5	**18.2**	18.0	138.6	205.5
Chrysler Corp.											
Sept. 30, 1950	402.3	57.0	127.6	587.1	215.1	371.9	2.7	**187.1**	....	509.0	724.2
Sept. 30, 1951	249.0	46.8	191.6	487.5	217.8	269.7	2.2	**114.3**	....	512.1	730.0
Colegate-Palmolive Peet											
Sept. 30 ,1950	26.1	19.3	21.4	66.9	16.9	49.9	3.9	**154.4**	....	96.7	118.1
Sept. 30, 1951	37.1	18.7	35.2	91.0	17.3	73.7	5.2	**214.4**	35.0	98.7	155.3
Colorado Fuel & Iron											
June 30, 1950	10.9	10.3	23.7	67.9	16.0	28.9	2.8	**68.4**	14.4	68.7	102.2
June 30, 1951	21.4	14.8	31.5	45.0	38.0	29.8	1.7	**56.6**	22.3	74.2	139.9
Distillers Corp.-Seagrams											
July 31, 1950	59.6	58.5	217.2	335.4	50.2	285.1	6.7	**119.2**	93.3	242.9	287.2
July 31, 1951	64.9	69.8	247.0	381.9	91.3	290.5	4.2	**71.1**	82.8	272.1	447.0
Douglas Aircraft											
Aug. 31, 1950	22.8	9.3	31.9	76.0	20.1	55.8	3.7	**113.4**	....	74.9	96.1
Aug. 31, 1951	19.6	10.6	62.9	106.0	53.6	52.4	2.0	**36.5**	....	80.6	134.2
Eaton Mfg. Co.											
Sept. 30, 1950	18.2	12.6	14.3	45.1	14.7	30.4	3.0	**123.8**	.6	51.1	66.8
Sept. 30, 1951	15.8	16.3	22.0	54.2	24.0	30.1	2.2	**65.8**	.5	54.9	79.5
General Motors											
Sept. 30, 1950	1,327.9	337.3	768.6	2,434.0	645.6	1,758.3	3.6	**196.5**	....	2,480.0	3,505.7
Sept. 30, 1951	601.5	512.6	1,102.3	2,216.6	714.6	1,501.9	3.1	**84.2**	....	2,489.5	3,582.9
Hercules Powder Co.											
Sept. 30, 1950	34.2	14.6	16.3	65.1	19.2	45.9	3.3	**178.4**	....	70.0	102.2
Sept. 30, 1951	33.8	19.5	28.2	81.7	36.0	45.6	2.2	**94.0**	....	74.4	126.4
Link Belt											
Sept. 30, 1950	24.2	8.3	12.5	45.2	9.5	35.7	4.7	**254.7**	....	51.3	60.8
Sept. 30, 1951	19.9	14.6	21.9	56.8	17.8	39.0	3.2	**111.8**	....	56.1	73.9
Minneapolis-Honeywell Regulator											
Sept. 30, 1950	6.2	15.6	25.4	47.3	13.4	33.8	3.5	**46.5**	5.0	46.3	64.8
Sept. 30, 1951	5.4	21.2	50.0	76.7	23.5	53.1	3.2	**23.0**	15.0	65.3	103.9
Remington Rand											
Sept. 30, 1950	18.2	26.5	42.2	87.0	27.4	59.6	3.2	**66.4**	41.5	65.2	136.5
Sept. 30, 1951	13.7	40.0	54.9	108.7	47.1	61.5	2.3	**29.1**	40.0	76.7	165.8
Schenley Industries											
Aug. 31, 1950	26.5	98.4	217.0	342.1	60.8	281.3	5.6	**43.5**	125.0	213.8	402.6
Aug. 31, 1951	44.2	63.8	257.7	365.8	57.7	308.0	6.3	**76.6**	150.0	227.4	438.2
U. S. Rubber											
Sept. 30, 1950	56.6	97.4	101.8	258.8	89.7	169.0	2.8	**63.1**	77.7	177.4	356.0
Sept. 30, 1951	66.9	118.4	169.2	354.6	178.8	175.8	2.0	**38.2**	77.7	192.0	461.2

Dollar Averaging with Growth Company Shares



By PHILLIP DOBBS

Without a consistent plan in investing, the average individual often faces the hazards inherent in wide cyclical market movements. At the upper ranges of a prolonged rise in stocks, he is apt to become over-enthusiastic and buy more than he should. Towards the end of a steep decline, he is likely to be unduly pessimistic and, what is even more important, not in possession of enough funds to purchase stocks at attractive levels. These impulses are human enough but in the process, judgement gives way to uncertainty which more often than not is likely to result in unnecessary loss in both income and capital.

Instead of this sporadic, wasteful and often emotional approach to investing, many investors can profit from adopting a systematic scheme of purchasing securities. Probably the simplest and most effective system of planned investment is "dollar averaging." This is fundamentally a savings plan, suitable especially for the individual who is in a position, through assured salary or professional income, to invest a specific amount periodically over a period of years. Obviously, such a plan would not be practical for individuals whose earning power is uncertain or erratic. Nor is it suitable for elderly persons whose life expectancy would normally preclude them from making long-range financial plans.

The program of "dollar averaging" is essentially of long-term duration and should not be embarked upon on any other basis. *The heart of the plan consists of making annual investments in equal amounts in the same stock or stocks over a fairly long period of years.* For this program to be effective, the investor must decide in advance how much of his annual income he can apportion to regular stock purchases, and stick to it. He must, at the same time, select stocks of the utmost dependability, preferably those representing very strong corporations which have exhibited and are likely to exhibit steady growth over a period of time.

The advantage of this plan for the investor who has the determination and financial ability to adhere to the program is that it tends to obviate the need for attempting to gauge price swings, both in buying and selling. Under "dollar averaging," the investor merely attempts to secure an average price in the same stock over a period of years, without trying to catch the market swings. Thus, guess-work is largely removed, since his plan will be operating in all kinds of markets, and the prices he pays will not depend on his own determination but on the actual level of the market at the time when he makes his purchase. "Dollar averaging" therefore is more or less automatic, as to the timing of purchase. Let us examine an illustration of how the plan works.

Assume that the investor decides to set aside 10% annually of his net income for the regular and systematic purchase of stocks. To simplify the equation, let us assume this amounts to $1000 a year, which he may invest annually, semi-annually or quarterly. In actual practice, it would probably be better if he made his investments semi-annually, as this would give him the advantage of two price levels in the market instead of one, as would be the case in a single investment. Quarterly investments are not so desirable as the amounts involved are small and inconvenient to handle and can be used generally only in the purchase of broken odd-lots, that is quantities of less than ten shares. However, it is not always possible to avoid such uneven quantities in comparatively small investments.

How the Plan Operates

Starting in January of 1952 then, our investor will purchase $500 worth of a carefully selected stock, say, selling at 25. Six months later, when he must make his next investment, his stock is selling at about 30, which gives him 17 shares. Six months

later, it is selling at 40 which gives him an additional 12 shares, so that by now he has 49 shares on an investment of $1500. Six months later, however, on a wide market decline, the stock is back to 25, giving him an additional 20 shares, with the investment in 69 shares now up to $2000, in a period of two years.

At 25, the market value of the 69 shares is $1725, so that after two years of investing the investor has a loss of $275.

Cumulative Results Impressive

This may not sound like a very encouraging start but let us follow this investor and his fortunes a little further. Continuing doggedly on his plan, our investor on his fifth semi-annual $500 purchase, with the stock now back to 30, buys 17 shares and six months later, at 35, he buys 14 additional shares, giving him a total of 100 shares, at a cost of $3000. But at 35, he now has a gain of $500. One year later, he has made two more purchases at 40 and 45 respectively, giving him 123 shares, with a market value of $5535 on an investment of $4000.

For the next few years, he shares in the vicissitudes of the market, but, sticking to his plan, he has made purchases at different levels, constantly adding to his holdings, and at the end of 10 years, with $10,000 invested, he has acquired an additional 122 shares at an average price of $50 a share. His company, however, has been growing steadily and the expansion has finally been reflected in the price of the stock which at the end of the ten years' period is, say, selling at 75. The value of the 250 shares is now $18,750. In the meantime, the dividends have grown let us say from an original $1.50 a share to $4 a share, giving an annual return of $1000 or 10% on the total investment.

This, of course, is a hypothetical case and serves merely as an illustration of the mechanics of the plan. However, the results are by no means far-fetched. It is probably true that any sound stock wisely selected ten years ago for its growth possibilities would have produced results more or less proportionate to those in the example above. The accompanying table gives a list of stocks which, in our estimation, offer good long-range possibilities and are suitable for "dollar" averaging.

Before our investor can start on his long-range plan, he must make as sure as is humanly possible that he has excluded every element of doubt from the stock (or stocks) on which he intends to concentrate his investment. This is fundamental, for any important error in judgement is bound to result in serious losses, especially because once committed to the plan, the investor should stick to it, if it is to prove its value.

If, therefore, he should have selected a stock destined to become a disappointment, he will find that his original error has been costly. In that case, he would have been far better off to have retained freedom of action, even if that subjected him to the customary vagaries of the market. At least in such a case, he could limit his loss quickly if he decided he made a mistake in the first place.

Selection of stocks for the "dollar averaging" plan necessitates an extremely rigid approach since it must conform in the most absolute sense to very high criteria of value. For that reason, the average speculative stock is not suitable. It is also wise to eliminate the shares of small and medium-sized companies, for while some of them have shown very great capacity for growth and have been extremely profitable investments, it would be extremely difficult to single out any one or several of these stocks from the great number available.

Best Media for "Dollar Averaging"

The large and successful companies, with the best proven record over a long period of time, are generally the best vehicle for sound investment under the "dollar averaging" plan. Such companies have shown not only a capacity for growth but also their ability to overcome adverse conditions during periods of business stress. This is an important consideration since the investor operating on a longe-range plan must be prepared (*Please turn to page* 312)

A Selection of "Growth" Stocks

	Net Per Share								
	9 mo. 1951	1950	1949	1948	1947	Price	Div.* 1951	Div. Yield	Price Range 1950-51
American Airlines	$ 1.33	$ 1.39	$ .89	$(d) .67	$(d) .74	15⅞	$ .50	3.1%	16⅞- 9⅝
American Natural Gas	2.66[2]	2.45	1.74	.67	.76	33⅝	1.65	4.9	35½-23⅞
Celanese Corp. of America	2.50	6.39	3.19	6.61	3.83	49⅛	3.00	6.1	58¼-29⅝
Corning Glass	2.88[3]	6.53	2.56	1.25	.73	68½	2.00	2.9	78 -28⅞
Dow Chemical	1.31[4]	6.12[1]	5.40	4.44	3.72	111⅞	2.40[5]	2.1	119½-54¼
General Electric	2.98	6.01	4.36	4.29	3.30	55¾	2.85	5.1	63⅞-41⅛
Goodrich (B. F.) Co.	5.75	8.06	4.79	5.52	5.39	58⅞	2.50	4.2	66½-23¼
Gulf Oil	4.13	4.90	4.45	6.77	5.27	50⅝	2.00	3.9	58⅛-29⅝
Johns-Manville	6.10	7.22	4.83	5.22	3.18	67	4.25	6.3	70½-36½
Mathieson Chemical	2.87	3.32	2.57	2.81	1.67	42¾	1.70	3.9	49⅜-23¾
Merck & Co.	1.15	1.49	.93	1.22	.89	32½	.83	2.5	39¾-13¼
Minnesota Mining & Mfg.	1.39	2.51	1.77	1.63	1.49	44⅞	1.00	2.2	54 -23½
Phillips Petroleum	3.74	4.23	3.68	6.01	3.38	48⅜	2.30	4.7	54 -28¾
Radio Corp. of America	1.15	3.10	1.58	1.50	1.13	23⅝	1.00	4.2	25¼-16⅜
Sylvania Electric	3.17	5.37	1.83	2.84	2.10	35⅜	2.00	5.6	39 -18¼

*—Indicated or estimated.
(d)—Deficit.
[1]—Year ended May 31, 1951.
[2]—12 months ended Sept. 30, 1951.
[3]—40 weeks ended Oct. 7, 1951.
[4]—Quarter ended Aug. 31, 1951.
[5]—Plus stock.

Happening in Washington

FIGHT OVER SECURITY NEWS GAG

By E. K. T.

PROBE of Senator Taft's last senatorial campaign was the material out of which the best forum he has had to-date was constructed. And the Ohio lawmaker, now with an army of skilled political experts, campaigners, and public relations men made the best of it. Senator Taft is hardly an individual to inspire pity, for he has demonstrated that he can take care of his own interests; yet he submitted his case to the senate elections committee in a manner which depicted him in the role of under-dog in the election, picked on by rich unions. It probably never will be learned which side spent the most money for Ohio laws are loose on the subject. Testimony indicated it probably was a standoff.

WASHINGTON SEES:

Congress and the President may be thrown into an epic struggle for control over the performance of officials in the executive branch of government as a result of a senate committee technical staff study which is just beginning to attract the attention it so obviously deserves.

The technical advisers to the committee on expenditures in the excutive department have said, in effect: yes, the President has the power, constitutionally, to impose a security news gag on information emanating from non-defense agencies; but while congress cannot directly repeal such an Executive Order, it can affirmatively legislate what any government employee may do and, more importantly, what he may not do. Put another way, the lawmakers are (if their technical advisers are on firm ground) empowered to say that there shall be free flow of news, blockaded only when an agency of congressional creation and pursuing its code, says otherwise.

While essential business data are in danger of suppression under the Presidential order, the importance of the controversy goes much farther. For the past score of years many, if not most, of the major functions of government rested on Executive Orders, not congressional legislation. Capitol Hill recognized the constitutional power in the President to take the actions, frequently fumed but apparently recognized no weapon of combat. In this not-too-important side controversy, a new executive-legislative relationship could be in the making.

LITTLE is likely to be heard from now on concerning the President's expressed wish to have a full-fledged ambassador to the Vatican. Congress is expected to take the President off the hook by rejecting essential legislation to permit General Mark Clark to retain his military emoluments while serving as ambassador. At that point the White House, it is predicted, will construe the action as denial of Mr. Truman's right to choose the man he considers best fitted, and a contest over the actual nomination will be avoided. But the issue will be revived when the campaign gets under way, particularly in the big cities of the east where the "holy war" will be injected into the electioneering.

RENEGOTIATION of defense contracts is about to begin in earnest. No time will be lost. In fact the Renegotiation Board is so anxious to get its show on the road that it has issued a set of interim regulations for the guidance of contractors, pending draft of formal, permanent rules. After World War 2, negotiations dragged on and the Treasury didn't get some of its money back for years. Under the current tax situation, with the outlook for even higher levies if Mr. Truman has his way, the renegotiators would like to get as much of the original contract money back as they can—as soon as they can!

PRESTIGE for republican Presidential aspirants is at stake in the fight which will be waged over the selection of a GOP floor leader to succeed the late Senator Kenneth Wherry. The Nebraskan was the choice and protege of Senator Robert A. Taft and he was in the forefront of the Taft-for-President group. Assistant floor leader is Senator Leverett Saltonstall of Massachusetts, who is beating the bushes for General Eisenhower.

As We Go To Press

The congressional joint committee on defense production has gone through the formalities of recess hearings, taking a broad look into progress of the mobilization and stabilization programs and will have a report and recommendations on each congressman's desk when the new session begins in January. It isn't hard to guess what the major elements will be. The Capehart Amendment, which permits certain recognized costs to be included in the base from which ceiling prices are built, will be proposed for junking. President Truman takes the position that some of the things which add to the cost of production should, nevertheless, be forgotten when computing that cost. Administrator Michael V. Di Salle takes the same position. Naturally he can't quarrel with the boss.

Senator Maybank, South Carolina democrat, is chairman of the committee. That makes it easy to carry the conjecture one part farther. The senator is sponsor of an OPS amendment which was gaining ground when congress adjourned and Maybank is no less sold on the idea today. It would move in the opposite direction to the one pursued by Senator Capehart's formula; it would direct OPS not to include enumerated costs in fixing bases for ceilings. And it would delve into the private business practices of any firm even to the extent of deciding how much advertising is necessary to promote the sale of a product -- permit that much as a cost element, not a penny more for advertising. That's more to HST's liking.

The Eric Johnston principles will be missed in the Office of Economic Stabilization now that he has gone back to the motion picture producers' association. It was difficult to trace the pattern of his thinking in the early days of his tenure of stabilizer; he was the first on the job and had to back and fill with the result that purposes and principles sometimes took on a clouded cover, didn't come into bold relief. But a runback of his record demonstrates that he hewed to a well-defined line, often in the face of harsh frowns from the very highest positions.

Johnston held to the point of view that too much faith was being expended on the idea that the nation's economy could be stabilized by application of direct controls. He saw that there was argument for such action, but described a sphere much more limited than the Truman-Wilson-Di Salle-Ching group envisioned. Leaving his office after a White House farewell, Johnston said he would consider it a "national blunder" to put too much dependence on direct controls over the economy and to disregard the effectiveness of indirect controls over credit and the money supply. But, he lamented, few seemed to recognize -- or care -- that there are always other than the DiSalle direct approach. His parting advice: remove controls gradually, as soon as possible.

The outlook for the first quarter of 1952, insofar as utilization of steel is concerned, focuses interest on more tonnage for schools and highway construction, and for farm implements, and little or none for commercial building. Theaters, skating rinks and other amusement enterprises consuming large amounts of steel will just have to wait. Starting point will be an order releasing large tonnage for agricultural implement repair parts, and for wire, metal roofing and line pipe. The farm belt has been pleading for aid through its congressmen, but found that speeches don't keep the tractors rolling. Accordingly, the agricultural interests swooped down upon NPA offices -- with obviously more favorable results.

The Department of Labor is opposed to industrial third shifts for women, seven-day operations (even if individual employees work only five of them), or general relaxation of existing labor regulations. That goes, too, for employment of persons under the age of 18 years. In one of the most hopeful appraisals out of Washington in many months, and one which seems to take issue with the military procurement office outpourings, Labor Secretary Tobin says: "The mobilization authorities agree that the

present situation does not require relaxation of existing labor standards except in unusual and individual cases -- and then only on a temporary basis."

As a matter of fact, the "mobilization authorities" who are quoted are not the ones the title brings to mind. The tags bear an air of officialdom, but they describe advisory groups: the National Labor-Management Manpower Policy Committee, and the Office of Defense Mobilization's Committee on Manpower Policy. The first of these consists of representatives of labor and management, and the second comprises government officials brought together periodically to consult and advise on an overall picture. With familiar agency logic, the Department of Labor expresses the viewpoint that it is better to arm state labor secretaries with discretionary power to move in and clear bottlenecks than to provide rigid legislation.

Pointed at state legislatures is the advice that industry-wide exemptions from currently applicable regulations be avoided; requests for exemption should be granted only upon a clear demonstration of need for critical defense production, after investigation of the facts, and only for a specified time, with provision for official review periodically for purpose of termination or renewal.

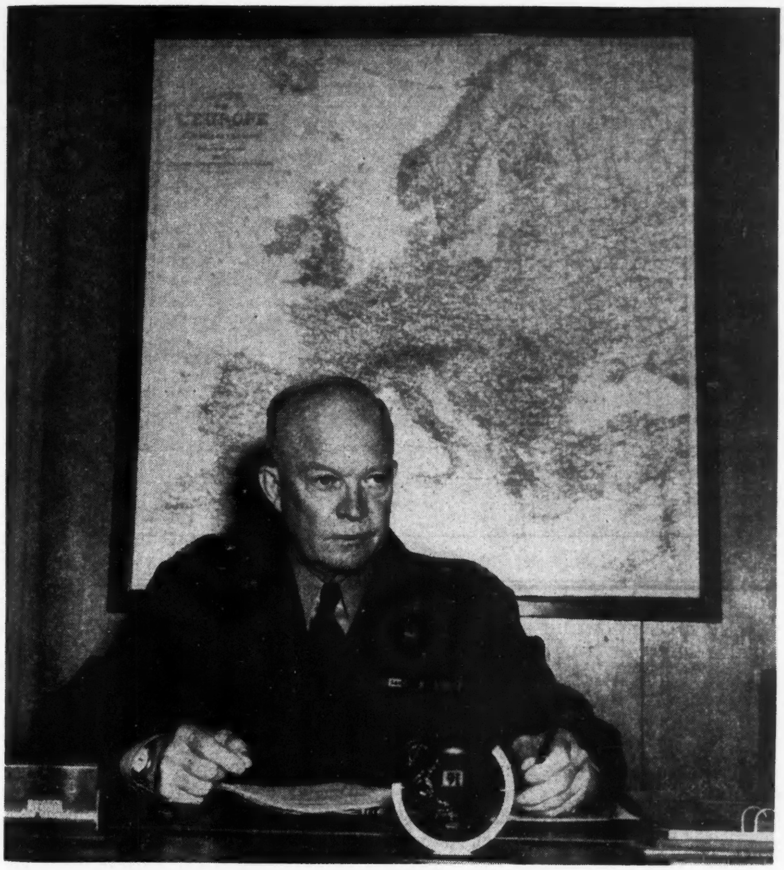
Additional shifts (not involving women workers) are preferred over lengthening hours in the work-day. That means premium pay; and further bearing a resemblance to the collective bargaining demands of unions is the suggestion: "In some instances it may be possible to condition relaxation of standards upon the provision of additional employee safeguards such as rest periods, longer lunch periods, and adequate transportation facilities." (The report doesn't show whether management and labor members split on any one of the propositions.)

Little attention was paid to the Presidential appointment of William E. Warne, Assistant Secretary of the Interior, to be director of the Point Four (aid to underdeveloped countries) Program in Iran. Yet it could be a major diplomatic stroke. Warne was the Administration's top adviser on water development and reclamation, a specialty which he developed without formal or technical training, for he came to Washington as a newspaperman. Iran is in need -- tragically so -- for more and purer drinking water for the common enjoyment of life and, in fact, for the preservation of life itself. If Warne can develop a water system for Iran, there is reason for hope that the grateful country might reciprocate with more friendly oil discussions.

Establishment of Stassen-for-President headquarters in Washington and announcement that listening posts will be set up elsewhere puts the former Minnesota governor and three-time aspirant for the republican nomination in the race. Stassen has had little success in past endeavors. He snowed General MacArthur under when the former Pacific commander made his first try, and subsequently was politically buried in a debate on whether communists should be registered under federal regulation, when he made the error of taking on Gov. Thomas E. Dewey without sufficient preparation.

Under any analysis of the political outlook, Stassen can hardly be regarded a serious contender. That raises the question whether he actually is looking to the Presidential nomination or has his eye on another office -- the vice presidency for example. If so, he's too close geographically for the Taft ticket, the Warren entry, or Eisenhower bracket. That would seem to indicate that there's a "dark horse" of considerable vote getting potentiality somewhere in the background. Stassen's public statements, which have been numerous and free-wheeling, should give indication of a boom to be assayed.

Opinion in informed circles here is that there is less dearth of vice presidential hopefuls than there is of Presidential aspirants, regardless of how many announce for the top office. Senator Henry Cabot Lodge is regarded a likely running mate if Eisenhower gets the nomination; Senator Everett Dirkson is virtually conceded the second spot if it's Taft -- despite geographical disadvantage of an Ohio and Illinois combination which appears to ignore both the far west and the far east.



The Shift from Re-Armament To Economic Aid for EUROPE

—The Tale of N.A.T.O.'s Tortuous Road

By V. L. HOROTH

In pondering over the candid debates on the problems of Atlantic defense at the recent Rome conference of the North Atlantic Treaty Organization (N.A.T.O.), one cannot escape the conclusion that the organizational problems raised by the all-European army concept are more nearly insurmountable than the obstacles to the economic unification of Western Europe. In all honesty, one must be either an optimist or a believer in the deeper forces of fate and self-preservation to persuade himself that Western European countries can overcome their selfish aims and units within a reasonable time for the sake of their own security and economic well-being.

The Rome Conference was an American show, or rather General Eisenhower's. Discouraged by obstacles to the defense unification of Western Europe and the slow progress of defense preparations, General Ike proposed in a dramatic speech a shortcut that would put teeth into the N.A.T.O. within a reasonably short period and not at some undefined future date.

The plan was dutifully adopted by the gathering of some 30 European cabinet ministers and an even greater number of European top brass. It calls for the creation of well-integrated multi-national corps of 40 combat divisions by the end of next year. For the time being, the Germans would apparently not participate. But by 1954 they would furnish 12 divisions in the multi-national army of 43 divisions. Also by that time, according to General Eisenhower's plans, Western Europe would have 57 additional combat divisions under individual country command.

Although the unified European defense has been talked about for nearly two years, there has been very little done in the way of realizing the blueprint plans worked out at the Supreme Headquarters of Atlantic Powers (SHAPE) in Europe. There have been disagreements on such fundamental issues as the size, support, and disposition of individual national army corps. In General Eisenhower's own words, national differences in training, mobilization and drafting, disagreements over command posts, and lack of standardization have lowered troop efficiency.

The question of arms standardization, for example, has been one reason why defense preparations have made such slow progress. Although there is still considerable slack in industrial capacity in Germany and Italy, there has been no placing of orders for firearms, tanks, or even plain uniforms, because of the eternal disagreements. To solve these problems on a twelve-nation basis has merely led to the piling up of one committee atop another, until the N.A.T.O. has become lost in the alphabetical jungle of bureaucracy.

Complaints About Defense Preparations

There have been long debates as to how much each country should spend on national defense in relation to national income. The London Economist had a story that the Belgians have deliberately lowered their national income data to show that they are doing more than their share in relation to their national wealth and income. The Netherlanders have been complaining that the defense preparations are being pushed too fast for them, and all Western European countries protest that additional defense burdens are a danger to the stability of their economies and that the living standards of their peoples cannot be lowered much more without strengthening the communists' hand, especially in France and Italy.

Defense Expenditure Expressed in Terms of Industrial Man-Years

Rough Estimates

Country	Defense expenditure in thousand man-years			Defense expenditure in man-years per thousand inhabitants		
	1949	1950	1951	1949	1950	1951
Belgium	120	130	210	14	15	24
Czechoslovakia	160	160	170	13	13	13
Denmark	50	60	75	12	14	17
France	1,600	1,700	2,200	38	40	51
Germany: Western zones	....	1,600	1,700	....	34	35
Italy	950	1,350	1,350	21	29	29
Netherlands	250	375	475	25	37	46
Norway	55	55	70	17	17	21
Poland	275	325	450	11	13	17
Spain	550	600	600	20	22	22
Sweden	180	160	180	26	23	25
Switzerland	75	85	115	16	18	24
United Kingdom	2,300	2,400	4,200	46	47	82
Yugoslavia	475	550	575	30	34	35
All countries listed	7,040	9,550	12,370	27	31	40
U.S.S.R.	8,400	8,800	10,200	42	43	49
United States	4,700	4,600	11,400	31	30	74

Sources: The E.C.E. Report on Economic Situation in Europe.

But in view of the situation, some of the present European defense expenditures are sheer waste as was brought out in Rome. Individual countries still continue to spend money on defense projects aimed at their neighbors, though they are supposed to be allies. For example, a sizeable part of French defense expenditures—which Paris is complaining to be unable to finance—is directed not against the Russians, but against the Germans. It is cases like this that General Eisenhower's streamlined plans are aimed at, to cut waste and save money for the European as well as the American taxpayer.

There is no question that General Ike's plan is the best under the circumstances. It cuts through waste and procrastinations. In his own words, it would constitute, alongside the Schuman Plan, "a great step toward the goal of complete European unity". The question is, is the plan realistic? Will the Western Europeans, to quote again General Eisenhower, "attempt the impossible, and pool sovereignty"?

Doubtful Future of E.P.U.

Past experience with Western Europe's "pooling of sovereignty" makes the creation of a multinational European army highly doubtful. Readers may still remember the preaching of Mr. Paul Hoffman, then the Administrator of the E.C.A., on the necessity of Western Europe's giving up some sovereignty and organizing itself into a single economic unit in which the stronger Western European states would help the weaker.

Not much of this dream has come true. Marshall aid may have been extremely successful in containing communism and in pulling the Western European countries out of an economic morass—though apparently not enough to enable them to carry increased defense burdens without calling for more American help.

The closest that Western Europe got to relinquishing some of its national sovereignty was in the case of the Schuman Plan which called for the setting up of a supra-national authority over European coal and steel output. But the Schuman Plan is not yet a reality. The British refused to join, as they refuse to join all Continental schemes. The French made the Plan hinge on their retention of the Saar, to which no German outside of Chancellor Adenauer's supporters would agree. Another supra-national experiment, the European Payments Union, which was to be a step toward the creation of a single European market via intra-European currency convertibility, is on the brink of insolvency. What is the reason?

Internal and external economic and financial policies of individual European countries are not synchronized enough to make the E.P.U. a successful experiment. A new dose of inflation has completely upset payments relations among the E.P.U. member countries. As a result, there has been an intra-European flight of capital from weaker currencies, such as the French franc, into stronger currencies such as the Belgian franc.

Switzerland now threatens to pull out of the E.P.U. Belgium is granting credits outside of the E.P.U. and is trying to correct her payments with other member countries by making her exports to them more expensive. At the same time she is cutting her imports of dollar goods in order to induce her importers to buy more from her Western European neighbors. A part of our economic assistance this year will very likely be used to salvage this "supra-national experiment"—the E.P.U.

European Nations at Cross-Purposes

Five years ago, we could have forced Western Europe to give up some sovereign rights in favor of economic unification. We failed to use that power at the time, largely because of the British. We may be less squeamish in demanding a speedy organization of an efficient multi-national European army in return for the proposed defense contributions.

General Eisenhower's plans would no doubt create something within a reasonably short time. It would cut through such obstacles as equipment standardization, since Europe's multi-national army would

be equipped by the United States. But many obstacles still remain.

The British have already announced that they would not join the multi-lateral army. The French indicate that they will not endorse it unless they are assigned a large national army to boot, which of course the U. S. is expected to equip. The Dutch do not want to join if the British refuse and the Belgians are objecting that the financial burden is too heavy. The Swedes and the Swiss are, of course, out.

But an even greater problem that will have to be solved before there is a multi-national army or just a defense coalition of national armies is what Germany's place is to be in Western Europe. General Eisenhower wants the Germans in on an equal basis because, to quote his own words, Western Europe needs Germany "both in geography and military strength . . . Germans cannot be hirelings if they are expected to operate efficiently."

In the first place, the Germans are themselves rather bewildered by the issue of unification of free Western Germany with the Soviet controlled Germany. All Germans want it for understandable patriotic reasons and also because the unification with the Peoples Republic may be a step towards the return of the lost lands beyond the Oder-Neisse frontier, East Prussia and Silesia.

But Chancellor Adenauer's conservatives and liberals favor integration with Western Europe first, and unity afterwards. Dr. Schumacher's social democrats say that unity with 20 million East Germans should come first and integration with the West afterwards. Dr. Adenauer is for "integration first" because he is aware that West German will continue to need American assistance. Dr. Schumacher says "unification first" because he believes that a united Germany would be strong enough to keep peace between the East and the West and thus reduce the risk of another war.

As long as the Germans are undecided about what to do, the other Western Europeans, the French in particular, will continue to be mighty cagey about incorporating German troops in the European defense set up, or even about economic integration of Germany with the West. There is still another problem: Dr. Adenauer insists that Germany has reached, in taxes and occupation costs, the limit of her financial capacity, that she cannot carry the additional burden of raising an army. Hence Germany will have to ask for a reduction or the elimination of occupation costs. Who will make up the difference? The American taxpayer probably is the one who eventually will be elected.

Last but unfortunately not least, there is the problem of European finances to be solved if the whole Atlantic Security Program is not to break down even before the military equipment begins to flow for the new European armies—multi-national or national. The Western Europeans, the British and the French in particular, claim that under existing circumstances, they simply cannot squeeze any more arms production out of their economies and that we will have to help with more money and more raw materials.

The British say that raw materials needed for arms output are costing them much more money than they anticipated, particularly since they now have to buy oil with dollars, what with the Iranian oilfields out of bounds. They say that they have miscalculated the amount of coal they can produce with miners deliberately seeking employment in other trades and with hostility to imported labor from Italy growing. The shortage of coal has in turn created shortages of steel, for the British must pay with coal for the imports of high grade Swedish iron ore.

British Want More Help

To straighten things out, the British estimate that they must have at least $500 million for various purchases and about 1½ million tons of steel to keep their armament and *export trade* (sic) at the required level, apart from 800,000 tons of steel to avert a slowdown in their defense program. They also need some iron ore and scrap, a sizeable gift of petroleum and more machine tools. Moreover they want us to resume buying tin and rubber so that they can earn more dollars.

The French estimated in the beginning that in order to carry out the original defense program in 1952, they would need between $800 and $900 million worth of goods from the dollar area over and above the goods they could finance themselves. Like the British, they need steel, machinery, cotton and above all, coal. While French requirements could stand cutting, the fact that French exports are pricing themselves out of the international market because of sharp price rises at home is likely to make for a larger dollar gap in international payments.

Outside of the "chronic debtors", Austria and Greece, the only other country that could use more dollar help in carrying out her defense program is the Netherlands. According to a semi-official Washington estimate, Western Europe could use during the current fiscal year (1951-52) about $520 million worth of American coal and $60 million worth of steel. The 1950 expenditures for cotton financed by the E.C.A. were $500 million; about 10 to 15 per cent more cotton will be needed. This, of course, does not include the Western European purchases of agricultural products, non-ferrous minerals, petroleum, etc.

It is quite clear already that this year's economic aid to Europe budgeted at (*Please turn to page* 306)

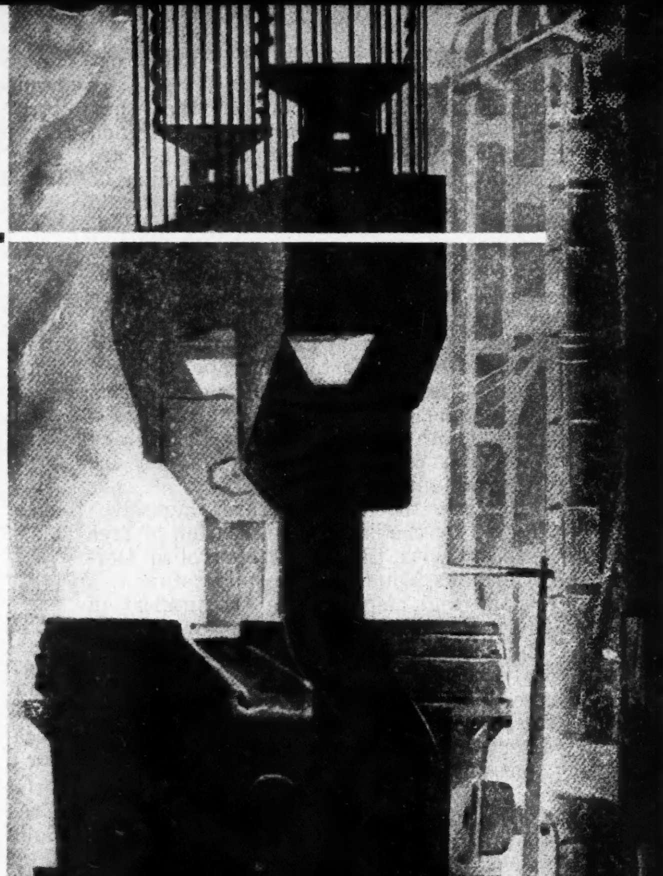
Western European Trade with U. S. and Canada

(In Millions of Dollars)

	Imports from U. S. & Canada			Exports to U. S. & Canada		
	1st Half 1950	2nd Half 1950	1st Half 1951	1st Half 1950	2nd Half 1950	1st Half 1951
Agri. products	527	540	704	61	115	118
Fertilizers	4	5	4	5	6	11
Chemicals	66	72	81	15	39	38
Coal	12	5	121	5	6	4
Petroleum	63	61	99	1	......	1
Struct. Steel	54	50	47	40	123	185
Non-ferrous Minerals	100	119	151	37	76	75
Wood and Pulp	30	50	112	33	32	46
Textile Fibers	322	259	272	37	36	49
Textile Mfrs.	8	11	20	91	116	148
Other Semi-manufacturing	49	38	63	20	34	41
Equipment & Vehicles	297	253	253	85	104	116
Other Manufact.	60	53	64	87	136	132
Miscellaneous	19	22	55	14	21	42
Total	1,611	1,538	2,064	515	845	1,005

Source: OEEC Statistics.

Investment Audit of National Steel



By STANLEY DEVLIN

Steel-making is one of the most cyclical of major industries, and few companies in this field can boast of anything like earnings stability. Abnormal emphasis on armament output in the last ten or twelve years has distorted the industry's usual "feast-or-famine" pattern considerably, but it would be rash to assume that basic conditions have been more than temporarily altered. This being the case, few investment counsellors recommend inclusion of steel stocks in conservative portfolios. If there were to be any exception to such a rule, however, National Steel would be the logical choice for an investment rating.

This company is a rarity in its group. It has come closer to demonstrating stability of earning power than any of its recognized competitors. Published records indicate that in no three-month period since its organization almost a quarter of a century ago has it failed to show a profit. In fact, it would not be surprising if virtually every month of its history has shown profitable results. Dividends have been paid each year since initiation of payments March 10, 1930, shortly after organization. A better appreciation of such an extraordinary record could be had by comparison with earnings and dividend casualties of the industry's leading representatives.

Two principal factors account for National's good showing: (1) Concentration on high profit margin products used chiefly in consumer goods industries, and (2) strategic plant locations. From its organization, the company stressed steel sheets—for which the automotive industry is a major consumer—and tin plate. The latter is noted for immunity from cyclical variations because it goes primarily into tin containers, demand for which is more stable than for almost any other type of steel. Principal plants are in Weirton, West Virginia, and in Detroit, an ideal arrangement for serving the can manufacturers and automotive customers.

Benefits of better-than-average profit margins have been utilized to strengthen the company's competitive position. Plant facilities have been enlarged and modernized to maintain efficiency. The company has become the fifth largest in the industry and capacity has been boosted about 50 per cent in the last five or six years. Completion of projects now in progress is expected to enlarge output to six million tons annually. In addition, a site has been acquired near Camden, New Jersey, for another large mill to serve the rapidly growing eastern market. Construction of the new plant is expected to cost upward of $400 million.

While physical properties have been enlarged and improved, financial position also has been strengthened through the ploughing back of retained earnings. Net plant account grew from the equivalent of about $19.55 a share (based on present capitalization) at the end of 1938 to $25 a share as of December 31, 1950, and has improved considerably since that time. In the same dozen years, debt actually decreased from the equivalent of $8.50 a common share to about $5.45 a share. Despite expenditures for improvements and for debt reduction, net working capital was enlarging in this period from the equivalent of $5.10 a share to $22 a share.

High Operating Efficiency

The total increment in these items in the twelve-year stretch approximates $25.40 a share. During the period, cash dividends came to the equivalent of $14.30 a share. These figures indicate more clearly than most other indices the type of company National Steel is, for it suggests a measure of financial

strength and a high degree of operating efficiency to produce such results. Detailed statistics indicative of recent operations are presented in the accompanying tabulation.

Company's Expansion

Formation of National Steel on a basis designed to serve consumer goods industries was no accident. The organization resulted from a consolidation of a brand new plant near Detroit with the Weirton Steel Company, which originated some 46 years ago as a tin plate manufacturer that acquired a bankrupt concern in Clarksburg, West Virginia, and shortly thereafter erected modern mills nearby on the Ohio River at a point which has become the city of Weirton. This plant became the largest producer of tin plate except the United States Steel Corporation.

In the summer of 1929, when Great Lakes Steel Corporation was formed and began construction of a new plant near Detroit to supply the automotive industry's sheet requirements, a merger was proposed and finally arranged. Into the combination also came the Hanna Furnace Company which owned blast furnaces in Buffalo. The enlarged concern was regarded at the time as a naturel affiliation of modern and efficient facilities ideally suited to cater to the choice steel consuming industries.

That early operating results were successful caused no surprise, but doubts over management's ability to maintain dividends often were expressed in the next few years, when depressed business conditions resulted in a sharp decline in output and low profit margins in reflecting keenly competitive conditions. The Weirton tin plate facilities carried the new company through this difficult period.

Aside from product mix and strategic plant locations, National has gained prestige for its technical skills. High engineering standards no doubt have contributed to wider profit margins. Management early saw potentialities of the continuous rolling process as a means of counteracting rising labor costs. After pioneering a process for electrolytic tin coating of steel sheets, this method was adopted, and it is believed that its mills now rate as the fastest in electrolytic tinning.

Use of oxygen in furnace operations has been widely exploited. Equipment is regarded as of the finest and plant layout has been designed for economies in time and effort. It has been estimated that profits (before accelerated depreciation and taxes) on steel production averaged about $28 an ingot ton last year, compared with an average among major competitors of only about $19.50. In part, differences in profit figures among steel producers reflect of course also varying accounting methods.

Greatly increased demand for tin containers, attributable in part to growth of super market merchandising in which vast quantities of staples are put in small packages, has spurred consumption of tin plate to such an extent that its use has exceeded that of many other types of steel over the last twenty years. Demand for steel sheets and strip has recorded even greater gains in reflecting record-breaking sales of automobiles, trucks, refrigerators, washing machines and many other household appliances. Production of tin plate, steel sheets and strip

STATEMENT FOR THE MAGAZINE OF WALL STREET

by EARNEST T. WEIR, Chairman, National Steel Corporation

"We will carry on through 1952 the program of expansion of capacity at the plants of National Steel Corporation which was started in 1945 soon after the end of the war and will be completed early in 1953. At that time, the total capacity at National Steel Corporation will be six million tons compared with the capacity of approximately four million tons in 1945. No outside financing has been required to carry out this large construction program. We expect a substantial portion of the new capacity to become effective during 1952 with a consequent increase in the amount of finished steel that we will have available for distribution."

"Because of Government regulations, which are both limiting and burdensome, it is very difficult now to make an accurate estimate of the steel situation in the future. It is my opinion however that with the steady increase in production by the steel industry as a whole, there should be plenty of steel by the middle of 1952. In fact, I believe that by that time it will be very evident that Government controls are unjustified because there will be ample steel for defense and civilian needs. I anticipate, however, that the domestic and export markets will continue to take all the steel produced."

Long Term Operating and Earnings Record

	Net Sales (Millions)	Operating Income (Millions)	Operating Margin	Taxes (Millions)	Net Income (Millions)	Net Profit Margin	Net Per Share	Div. Per Share	Percent Earned on Invested Capital	Price Range
1951 (9 months)	$472.3	$107.7[1]	22.8%[2]	$73.2	$34.4	7.3%	$ 4.68	$ 3.00[3]	......	56 -43[4]
1950	537.0	116.6	21.7	56.1	57.8	10.7	7.88	2.85	19.8%	53¼-29½
1949	424.8	77.8	18.3	37.4	39.3	9.2	5.34	1.83	15.4	31⅝-24½
1948	436.5	72.4	16.5	33.3	40.1	9.1	5.45	1.66	17.5	38⅛-27
1947	328.9	46.0	14.0	19.2	26.8	8.1	3.65	1.33	13.4	31⅝-24¾
1946	239.7	33.4	13.9	13.8	20.4	8.5	3.05	1.08	11.2	33¾-25
1945	271.8	28.6	10.0	16.0	11.1	4.0	1.68	1.00	6.6	28½-21⅝
1944	252.3	28.0	11.1	17.2	10.7	4.2	1.62	1.00	6.5	23¼-19¾
1943	256.1	39.2	15.3	26.3	11.6	4.5	1.76	1.00	7.2	21½-17⅝
1942	219.8	45.3	20.6	30.3	11.9	5.4	1.80	1.00	7.6	18 -14¾
1941	200.5	38.4	19.1	19.8	17.1	8.5	2.59	1.00	11.3	22⅞-14
10 Year Average 1941-50	$316.7	$ 52.5	16.0%	$26.9	$24.6	7.2%	$ 3.48	$ 1.37	11.6%	53¼-14

1—Net before taxes.
2—Pre-tax margin.
3—Declared to Nov. 13, 1951.
4—To November 27, 1951.

and other types of steel going into consumer goods lines had exceeded 1929 volume before the 1937 depression. The fact that National Steel's product mix stressed these popular items accounted in no small measure for the company's enviable record of profitable operations through the early 1930's.

The strategic location of the Great Lakes Steel plant on the outskirts of Detroit assures the mill of virtual capacity operations even under difficult conditions, for the concern is the only integrated steel mill in the Detroit area. Of course, the plant has not nearly enough capacity to supply all normal requirements for the big steel consuming industries in the area, so that large quantities of steel must be obtained from Indiana, Ohio and Pennsylvania. Nevertheless, from a competitive viewpoint, National's Great Lakes mill enjoys an exceptionally favorable position.

Large Supplies of Raw Materials

Profitable operations have been aided in no small measure by a fortunate acquisition of low-cost raw materials at the time of organization. In connection with consolidation of the Hanna blast furnaces in Buffalo, the Hanna Iron Ore Company was acquired along with a fleet of lake ore carriers. Thus high grade iron ore from Lake Superior reserves in Minnesota is readily barged to the Detroit mills.

The company's holdings of iron ore reserves are regarded as probably the largest in relation to estimated annual requirements of any of the leading steel producers. Iron ore from Labrador or from South America presumably will be made available for the projected new mill to be erected on the Delaware River near Philadelphia.

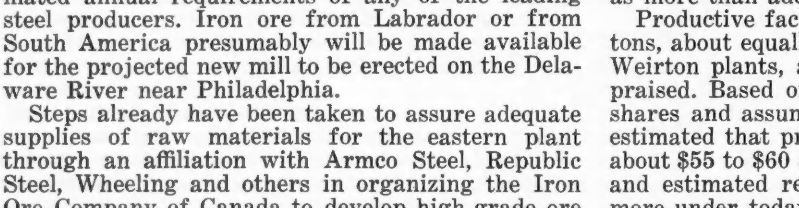
Steps already have been taken to assure adequate supplies of raw materials for the eastern plant through an affiliation with Armco Steel, Republic Steel, Wheeling and others in organizing the Iron Ore Company of Canada to develop high grade ore properties in Labrador. Several years will be required to construct transportation facilities and set up the necessary equipment for readying the ore for shipment to this country, but estimates suggest this source may prove more satisfactory in the long run than the South American ore.

A development of potentially considerable importance to the company is its acquisition of 15% of the Reserve Mining Company which, together with Republic Steel and Armco, has ownership of an extensive tract of taconite-bearing land in Minnesota. This is located toward the eastern end of the Mesabi range. Through new processes, this low-grade (magnetic) ore is made suitable for charging into blast furnaces and may, in time, produce sufficient tonnage to add materially to the iron ore holdings of the company. This is an important consideration, especially in times of very high rates of steel production since total iron ore resources of the industry have been declining for some time. Approximately $75 million will be required to complete the new installations.

Coal reserves also are regarded as abundant and relatively cheap. The original source of coal owned by the National Mines Corporation at Isabella, Pa., was completely mechanized many years ago, and a new mine was opened recently near Morgantown, West Virginia, whence coal is transported by conveyor belt to the Monongahela River to be transshipped by water and rail to furnaces and coke ovens. Output from the new mine is scheduled to be brought up to more than a million tons annually. As in the case of iron ore, coal reserves are regarded as more than adequate.

Productive facilities of approximately 4.8 million tons, about equally divided between the Detroit and Weirton plants, are regarded as conservatively appraised. Based on recent market appraisals of the shares and assuming debt be deducted at par, it is estimated that producing facilities are evaluated at about $55 to $60 a ton of ingot capacity—well below and estimated reproduction cost of $225 a ton or more under today's prices.

Sales of National are expected to approximate $660 million for a new high record this year, or more than four times the 1940 figure, but earnings seem destined to fall below last year's peak of $57.8 million, equal to $7.88 a share. Net profit for 1951 may range between $6 and $6.25 a share. This would provide ample coverage for the indicated $3 annual dividend, on which the shares at current price of about 53 afford a return of about 5.5 per cent. In the light of the prospective high rate of armament production in 1952, the company should be able to maintain operations at a rate comparing favorably with the year drawing to a close.

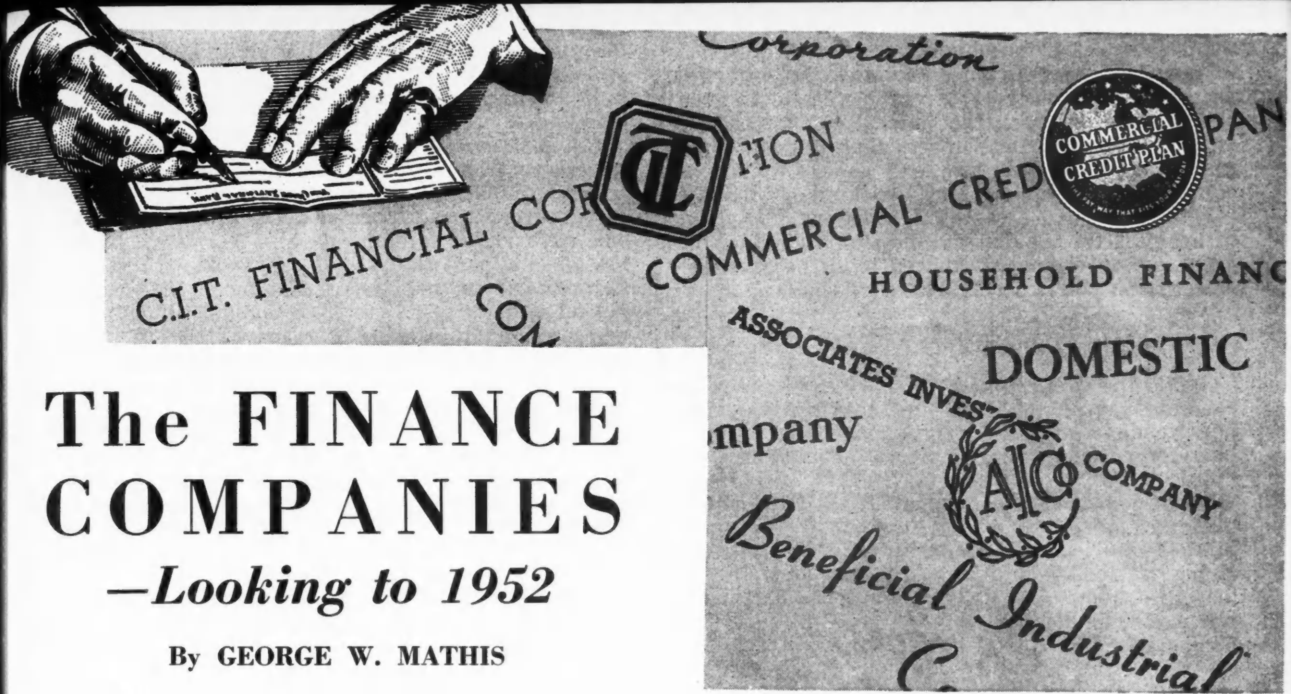


	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951
EARN.	1.90	2.59	1.80	1.76	1.62	1.68	3.05	4.01	5.45	5.34	7.68	
DIV.	.83⅓	1.08⅓	1.00	1.00	1.00	1.00	1.08⅓	1.33⅓	•1.66⅔	1.83⅓	2.85	
Wkg Cap $ Mil	39.5	39.0	45.1	54.8	65.9	78.8	76.4	73.3	98.1	129.0	161.2	

High Profit Margin

While volume of sales for all leading steel companies has increased at a more rapid rate than total costs, thus providing an increasing margin of operating profit, National Steel stands

(Please turn to page 306)



The FINANCE COMPANIES

—*Looking to 1952*

By GEORGE W. MATHIS

Consumer credit (of which installment sales, department store charge accounts, personal loans, etc. constitute the various forms) has become increasingly popular since it first came into vogue in the 1920s. The total now oustanding now aggregates nearly $20 billion. However, the ratio of such credit to national "disposable income" seems to remain close to the 10% level, varying moderately with economic conditions.

Thus in 1929 the ratio was 9.2%. While national income dropped sharply during the 1932 depression, debts were also being paid off, so that the ratio dropped to 8.5 in 1934. With the return of prosperity the ratio increased to 12% in 1940, but during 1941-45 the trend was rapidly reversed as goods became unavailable during World War II. After the end of the war, however, the ratio rose rapidly from the 4% level, reaching 10% in 1950. It appears likely that another downward trend will occur in 1952, and become accelerated in 1953-54 if (as Mr. Wilson asserts) the butter in our guns-and-butter economy is curtailed by increasing shortages of material and labor.

The finance companies—i.e., companies which purchase or guarantee installment sales paper—occupy an important position in the handling and financing of this debt. The Federal Reserve Board during World War II was assigned the task of policing consumer credit and in 1950 it was again given this task by Congress and the now well-known "Regulation W" was set up as a result. All organizations having anything to do with retail credits were ordered to register, as they had previously done in 1941 and 1948. Some 30,000 financial and 112,000 non-financial organizations registered with the Federal Reserve Board, of which 2,720 were sales-finance companies.

Leaders in the finance field include (in order of size) C.I.T. Financial Corp., Commercial Credit, Associates Investment Company, Pacific Finance Corp., etc. Among the "small loan" companies, which loan directly to consumers, Household Finance Corp. and Beneficial Industrial Loan Corp. are the leaders, followed by smaller companies such as Seaboard Finance, American Investment Company of Illinois, etc.

On September 30, 1950, installment paper outstanding was reported in an aggregate amount as $15.2 billion, and a breakdown of this figure is now available. Commercial banks held about $6 billion of the amount, finance companies over $4 billion, and small loan companies about $1 billion, while retailers and other non-financial enterprises held the remaining $2.4 billion. A comparison with similar figures in 1941 indicated that retailers now hold a smaller proportion of installment paper. Lenders now not only purchase more installment paper but also make installment loans directly to customers, such purchases sometimes appearing as cash transactions on the dealer's books.

Of the total installment paper held by financial businesses, automobile paper accounted for over $6 billion or nearly one half, while other retail loans amounted to $2.6 billion, home repair loans accounted for over $1 billion, and personal loans nearly $3 billion. The finance companies alone had over $3.5 billion automobile paper, and somewhat less than a billion of miscellaneous retail paper, plus negligible amounts of personal loans and house-repair paper.

Record Earnings Up to Recently

Installment financing of automobile sales naturally varies from year to year, depending upon the conditions in the automobile industry. Thus such financing in the last half of 1950 set a new high record and as a result, companies handling automobile paper enjoyed record earnings in 1950 as well as for much of 1951, reflecting a carryover of 1950 business.

Credit restrictions under Regulation W were relaxed slightly last summer, the 15-month payment period for new cars being extended to 18 months. As a result, the amount of retail paper at the end of

September set a new high record. However, sales of new cars have fallen off again in recent weeks, so that the full year 1951 may not make as good a showing as 1950 for the finance companies. Next year it is generally anticipated that, due to stepping up of the defense program, only some 4 million cars can be produced as compared with an estimated 5.2 million this year. Despite this decline, the volume of business for the finance companies should still be quite satisfactory as compared with the average of past years.

Profits Still Substantial

While the gross amount of business handled has remained at a high level in 1951, profit margins have tended to shrink despite the larger volume of business, and high taxes have also cut into net.

In general, the outlook for 1952-53 seems somewhat better for finance companies with a *diversified* business than for those which specialize in automobile paper. The small loan business is relatively more stable, not being subject to the ups and downs of major consumer items such as automobiles and appliances. The business of the personal loan companies has shown a consistent upward trend, and loans have risen steadily this year. Apparently individuals are apt to borrow more when business is good, although the contrary might be assumed.

Thus these loans seem to correlate quite well with the trend of consumer income, and the business of the small loan group is, therefore, expected to hold up well in 1952. However, the small loan companies appear more vulnerable to excess profits taxes than the auto finance companies.

Generally speaking, finance company earnings which were in a steady uptrend since 1946, flattened out in the first half of 1951 and largely because of higher taxes, a moderate decline in earnings from last year's is indicated with a further reduction likely in 1952. Net profits nevertheless should compare favorably with earlier good years and dividends should be well maintained.

Small loan companies have enjoyed record business with volume likely to continue at a high level, and profit margins should be satisfactory. Thus 1951 earnings may well equal the record 1950 results despite higher taxes, including EPT, and dividends appear secure.

Following are some highlights on individual companies:

C.I.T. Financial Corp. is by far the largest finance company; it handled several billion dollars worth of paper in 1950, reporting revenues of $162 million. Retail auto paper amounted to $788 million, wholesale auto $1,770 million and all other paper $1,089, million, a total of $3.6 billion, compared with $3.3 billion the year previous. Share earnings in the post-war period rose from $1.27 to $8.04 in 1950, but this year are expected to decline, due principally to higher taxes, and some further decline appears likely for next year. The dividend rate during 1945-7 was $2 but the regular rate has been raised to $4, with a $1 extra in 1950 and again this year. At the current price around 55½, the stock yields 7.2%, based on the $4 rate only, or 9% if the extra is included.

Earnings during each quarter of this year have been somewhat less than for similar quarters last year. The third quarter showed earnings on the common of $2.02 a share compared with $2.21 a share the year previous; the second quarter's earnings were $1.72 a share against $2.39, and the first quarter's earnings were $1.84 a share against $2.12. Earnings during the first half were favorably influenced by the special circumstances of income from investments and profits from the sale of securities of American Surety Co. During the last half of the year, it is expected that insurance company results will improve over the poor showing earlier in the year. Factoring operations are on a favorable basis but curtailment of new car output will tend to reduce the volume of financing. This, in turn, is in part offset by continued heavy financing of used cars.

With present factors affecting financing operations likely to continue well into 1952, it is probable that earnings will not cover present dividends by too wide a margin. The high yield on the basis of including the extra would seem to indicate that total dividends for 1952 will be less than for the current year.

Commercial Credit Company, the second largest of the independent units in the installment field, has turned in a good record for the first nine months of the year, considering the restrictions under which

Statistical Data on Leading Finance Companies

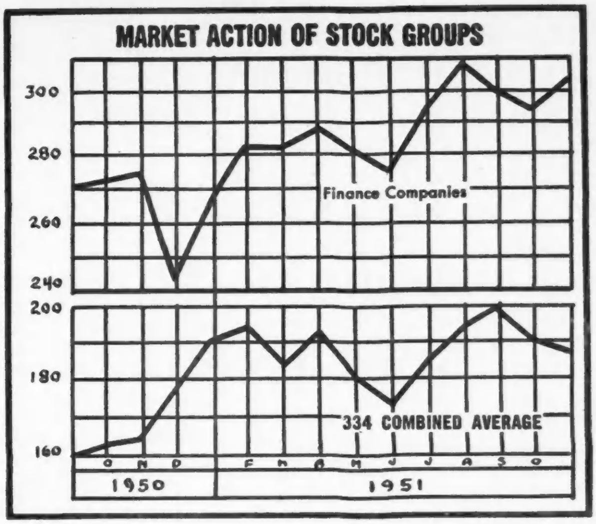
	9 Months 1951 Volume of Receivables (Millions)	9 Months 1951 Net Income (Millions)	9 Months 1951 Net Per Share	1950 Volume of Receivables (Millions)	1950 Net Income (Millions)	1950 Net Per Share	Recent Price	1951 Div.*	Div. Yield	Price Earnings Ratio†	Price Range 1950-51
American Investment Co. (Illinois)	$ 16.0[1]	$ 3.0	$ 1.50	$ 129.5	4.0	$ 1.96	19⅛	$1.60	8.3%	9.7	20⅞-13½
Associates Investment Co.	712.6	8.7	8.11	769.7	10.8	10.29	62⅞	4.50	7.1	6.1	64¼-39¼
Beneficial Loan Corp.	....	9.0	2.76	316.9	9.9	3.12	30⅛	2.00	6.6	9.6	30⅞-20¼
C.I.T. Financial Corp.	....	21.4	5.58	3,647.7[2]	30.7	8.04[2]	54½	5.00	9.1	6.7	68½-41¼
Commercial Credit Co.	2,130.5[2]	15.3	6.72	2,346.5[2]	19.8	8.64	59⅜	4.80	8.1	6.9	63¼-43½
Family Finance Corp.	[3]4.0[4]	.6[4]	.39[4]	89.2[6]	2.9[6]	1.78[6]	15½	1.40	9.0	8.7	17¾-13
General Finance Corp.	8.6	1.3	1.13	183.9	1.8	1.54	7½	.50	6.6	4.9	8⅛- 5½
Household Finance Corp.	46.0[3]	9.3	3.17	426.3	11.9	4.09	39½	2.40	6.0	9.6	41½-29⅝
Pacific Finance Corp. (Calif.)	238.5	1.7	2.75	282.9	2.1	3.51	24½	2.00	8.1	7.0	25¼-15½
Seaboard Finance Co.	[3]14.5[5]	2.5[5]	1.93[5]	117.0	2.4	2.04	19⅞	1.80	9.1	9.7	21⅜-16⅛

*—Indicated or estimated.
†—Based on 1950 earnings.
[1]—Gross revenues.
[2]—Does not include gross insurance premiums or net sales of manufacturing subsidiaries.
[3]—Gross income.
[4]—Quarter ended September 30, 1951.
[5]—11 months ended August 31, 1951.
[6]—Year ended June 30, 1951.

companies in this field are operating. Actually, receivables expanded sharply during this period to $2.7 billion against $2.1 billion for the same period last year. Pre-tax earnings were $35.4 million against $29.5 million. However, income taxes including excess profits tax were $20.1 million compared with $13.3 million the previous year, thus bringing per share earnings for the period down to $6.72 a share against $7.07.

While earnings thus far reported are excellent, it is likely that with a declining trend in deferred finance income since mid-year, the earnings trend will be somewhat lower for the period directly ahead. Earnings in 1950 were $8.60 a share and with the higher taxes now in effect, it is likely that the full year's earnings will be less, though the difference should be slight.

Dividends are at the rate of $4.80 a share which is being covered by a substantial margin so that there need be no doubt about its continuance. At the current price of about 59, the yield is approximately 8%.



Position of Miscellaneous Concerns

Associated Investment Company handled $770 million paper last year (principally automobile), with gross operating income of $34 million. Consolidated share earnings jumped from $1.42 in 1946 to $10.29 in 1950, and dividends rose from $1 to the present $4.50 rate. (These figures have been adjusted for a 2-for-1 split in 1947.) This stock has been more dynamic than most others, having shown a fairly consistent long-term advance from 4 in 1932 to 68 recently.

General Finance Corp. is a smaller company, revenues amounting to $11 million last year, it operates principally in automobile paper, outside interests being gradually liquidated. It has, however, retained Climax Engine & Pump Manufacturing Co., whose products are important in the defense program. The company reported a deficit of 61¢ a share in 1946 but earnings increased to $1.54 in 1950. This year's net may approximate $1.25, it is estimated, and dividends are expected to remain at the 50¢ level. At the recent price around 7½ the yield is 6.6%, and the price-earnings ratio under 5 based on 1950 profits.

Pacific Finance of California is the largest West Coast automobile finance company, but ranks fifth on a national basis, with operating income of $17 million in 1950. Earnings increased from 78¢ in 1946 to $3.51 in 1950. Earnings continued to gain in the first half of 1951 and hence may show moderate improvement for the calendar year. The dividend rate has been somewhat variable but yearly payments aggregated $2 in both 1950 and 1951, affording an 8% yield currently.

Household Finance Corp. is the largest company in the small loan field, handling about 17% of the business in this country and 70% in Canada. Earnings have not shown as big a post-war jump as with the automobile finance companies, but nevertheless have increased steadily since 1945. In that year, earnings per share were $1.78 rising to $4.09 in 1950. For the first nine months of this year, net per share amounted to $3.17 against $3.38 the year previous. Pre-tax earnings for the period were $25.1 million against $20.6 in 1950 but an increase in income taxes, including excess profits tax, of $4.4 million, kept the post-tax profits down slightly below the year previous. Expectations are that net will amount to about $4 a share compared with $4.09 in 1950.

The size of the company's business is in direct ratio to the level of employment. With the present level high and likely to continue high, due to the increase in armaments building both here and in Canada, the outlook for 1950 is considered good. The dividend rate of $2.40 a share is conservative in view of the substantial margin of earnings over dividends. At the present price of about 39, the yield is 6%.

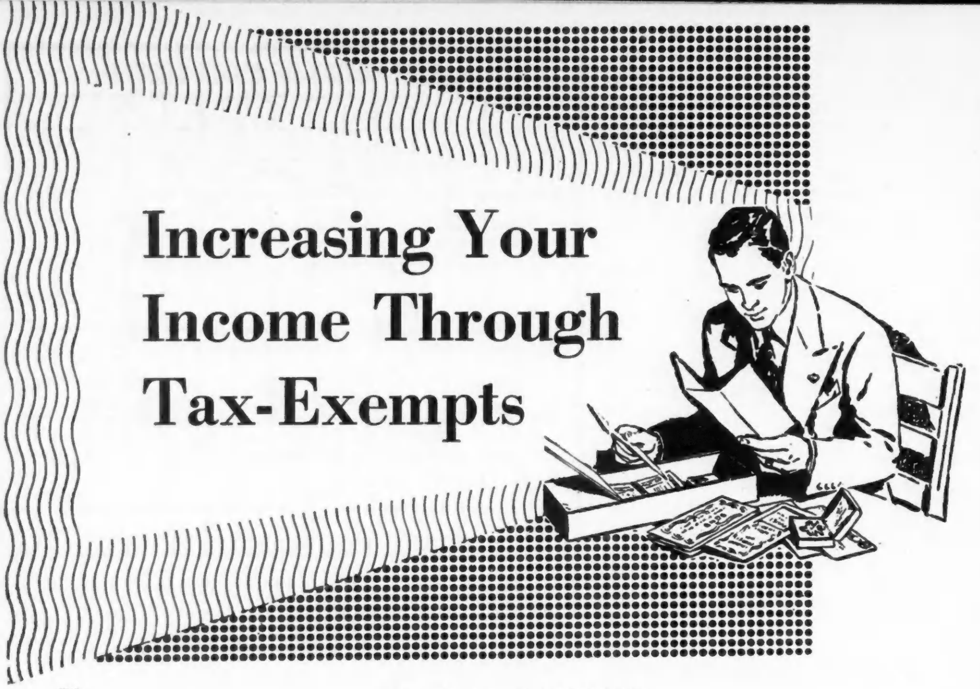
Beneficial Loan Corp. is second in the small loan business, not far behind Household Finance. Earnings have made consistent progress in the past few years, having risen from $2.28 a share in 1947 to $3.12 a share in 1950. For the first nine months of this year, pre-tax earnings were $17.2 million compared with $11.8 million the year previous. However, an increase of about $4 million in income taxes nearly wiped out this gain.

Despite higher taxes, it is expected that the company will earn somewhat in excess of the $3.12 a share in 1950. The company is ending a successful year and further expansion in loans can be visualized in 1952. Though all cost factors are rising, the volume of incoming business is increasing at an even faster rate so that the outlook for 1952 seems satisfactory. At the present price of about 30, the $2 dividend gives a yield of 6.6%.

Small Personal Finance Companies

American Investment Co. of Illinois is third in the personal finance division and is relatively small compared with the leaders. Earnings have shown the same general upward trend, but this year may be moderately below last year's $1.96, since interim figures have been lower. The $1.60 dividend seems somewhat less well protected than with other issues.

Seaboard Finance Co. is fourth largest in the small loan group. Here again earnings have shown a considerable increase over the wartime period, and were probably about the same in the fiscal year ended September 30 as last year, when $2.04 was earned. At the current price around 20 the stock yields 9%, based on the $1.80 dividend.



Increasing Your Income Through Tax-Exempts

By J. S. WILLIAMS

Successive increases in personal income taxes have reached the point of severely reducing the net realizable return on investments. While this situation affects all classes of investors in varying degree, it is of particular concern to individuals in the upper brackets who are being thoroughly squeezed by the steep surtax rates now prevailing. It is natural, under these conditions, that individuals with substantial investible funds should give increasing consideration to the advisability of investing in tax-exempt issues as a means of sheltering their investments from inordinate taxes and thereby increasing their return.

Escape into tax-exempts at this particular time also affords investors in the higher brackets an opportunity to solve their traditional year-end re-investment problems. Furthermore, it is a suitable means of assisting such individuals to arrive at a decision on accepting any large stock market profits they may have and on the disposition of such profits, at the same time securing the greatest amount of income possible.

That the necessity of protecting income against high taxes has become increasingly imperative in recent years may be seen from the fact that on a $20,000 income, for example, the net yield *after taxes* is now only 2.24% for a single person, and 3.42% for a couple making a joint return, from a pre-tax return of about 6% on securities, a figure which represents the average yield on industrial stocks to-day. In other words, after taxes, the income in this bracket is cut by more than half in the case of the single individual and almost in half in the case of the married couple. The bite is even more in the higher incomes, as can be seen from the accompanying table, with tax rates running up to 88% for incomes of $90,000-$100,000.

Since the start of the war in Korea, income taxes have been increased twice, each boost playing havoc with income. Thus in 1949, with industrial stocks yielding about 6⅔% on the average, the net yield on a $20,000 income on a joint basis (community) was 4.42% which shrank to 3.73% in 1950, and is now at 3.42%. As for a single person, the net yield is down to a mere 2.24%, it is obvious that even on medium-sized incomes, taxes have brought the net return almost to the vanishing point. The results are even worse in the higher incomes.

For illustration let us take a person with a really imposing income of $40,000 from salary or profession and $20,000 from securities. Without regard to normal deductions such as allowable expenses and charities, not a very important item to-day against the total tax that must be paid, the tax amounts to about $21,000 on the first $40,000 of income, and about $15,000 on the next $20,000 of income. In other words, all that he has left from his income on securities is $5,000 out of the original $20,000. In the case of a married couple, the amount left out of income from securities would be about $7,000.

In the case of a still larger income, say $40,000 from salary or profession, and $40,000 from securities, the tax amounts to $21,000 on the first $40,000, but let us see what happens to his $40,000 income from securities. This pays a tax of not less than about $31,000, leaving him only $9,000 net out of his original income from securities. With the same income, in the case of a married couple, the net return would be about $13,000.

How Tax-Exempts Boost Income

It would take a capital of approximately $333,000 to produce an income of $20,000 at 6%. But, as we have seen, this will afford a net yield of only $5,000 for a single person who has a salary of $40,000. If this money, however, were invested in tax-exempts at 2%, the return would be $6,600, an increase of $1,600. If it were invested at 2¼%, the increase would be almost $2500 and at 2½%, it would be almost $3300. For a married couple, there would be little advantage unless a tax-free yield of 2¼% or more could be attained. At this point, the advantages become substantial.

In the case of the individual with the $40,000 income from securities, let us presume that his capital, bringing in 6%, amounts to $666,000. If this amount were invested in tax-exempts at 2%, the net return would be $13,333, an increase of $4,333 over the $9,000 he has left after paying taxes on his $40,000 income from securities. At 2¼%,

the net return would be $15,000, an increase of $6,000; and at 2½%, the net income would be brought up to over $16,000, an increase of over $7,000; in fact, the tax-exempt income would now be almost double the original amount.

In other words, a shift to tax-exempts in an income range of the proportions described above would produce a striking increase in actual return, one that in these days of high living costs would be normally tempting to many people. As in the case of the couple with the $20,000 income, a couple with a $40,000 income from taxable securities would not benefit materially from tax-exempts unless they could secure a yield of 2¼% or better.

We have selected the two income brackets mentioned above to illustrate how income can be materially increased through investment in tax-exempts. Naturally still higher incomes benefit even more as the tax rates become quite prohibitive when income approaches $40,000. As income approaches the $100,000 mark, the amount left for the tax payer is reduced to infinitesmal proportions. At $100,000, the top rate is 88%, leaving only 12 cents out of every additional dollar received in income. At $200,000 a year, only 8 cents out of a dollar is left.

Taxable vs. Tax-Exempt Income

The accompanying table (based on computations by Standard & Poor) which should be studied by the reader in the light of his own requirements, gives the equivalent yields on taxable vs. tax-exempt securities. It will be seen that on the lower-yielding exempt issues, 2½% and less, there is little advantage until the $20,000 income mark is passed. For example, on 2¼% tax-exempts, the net yield in this bracket would be equivalent to approximately 5½% on taxable securities, which is about the average that can be obtained to-day on a combination of securities, not confined exclusively to industrial stocks, but including other issues as well as good bonds.

As the income increases, the advantage of tax-exempts progressively amounts so that in the $75,000-$100,000 bracket, a yield of 2¼% on tax-exempts would produce an income equivalent to 13¼% to 18¾% on taxable securities, depending on the precise bracket. At 2%, the equivalent yield on taxable securities would be from 11¾% to 16⅔% for the same bracket of $75,000-$100,000, and at 2½%, the net yield would be equivalent to from almost 15% to almost 21%. In other words it would require the investor in these brackets to find yields of from 11¾% to 21% to achieve a return equivalent to 2% to 2½% on tax-exempts.

It is not difficult, therefore, to see why large investors have become increasingly impressed by the advantages of tax-exempts in recent years. As a matter of fact, an indication of the growing interest in these securities is the astonishing increase in state and municipal financing now amounts to well over $3 billion annually, a figure never reached in the history of such financing.

Prices in the municipal bond market which weakened last Spring in sympathy with the unpegging of governments have firmed in recent months, especially in recent weeks after the new tax bill went into effect last November 1. However, prices have not fully recovered so that the present market is still advantageous to those endeavoring to secure the highest possible net yield.

Experienced investors in tax-exempts, of course, are aware of the special nature of these issues. As a rule such purchasers, realizing the intricacies, are apt to rely on firms which specialize in this field rather on their judgment. This would be a good example to follow by investors new to the field who are anxious to improve their incomes, yet to reduce the risk to the smallest possible degree.

It would not be amiss, however, if the investor acquainted himself with a few of the important characteristics of *(Please turn to page 307)*

Representative Tax–Exempt Bonds

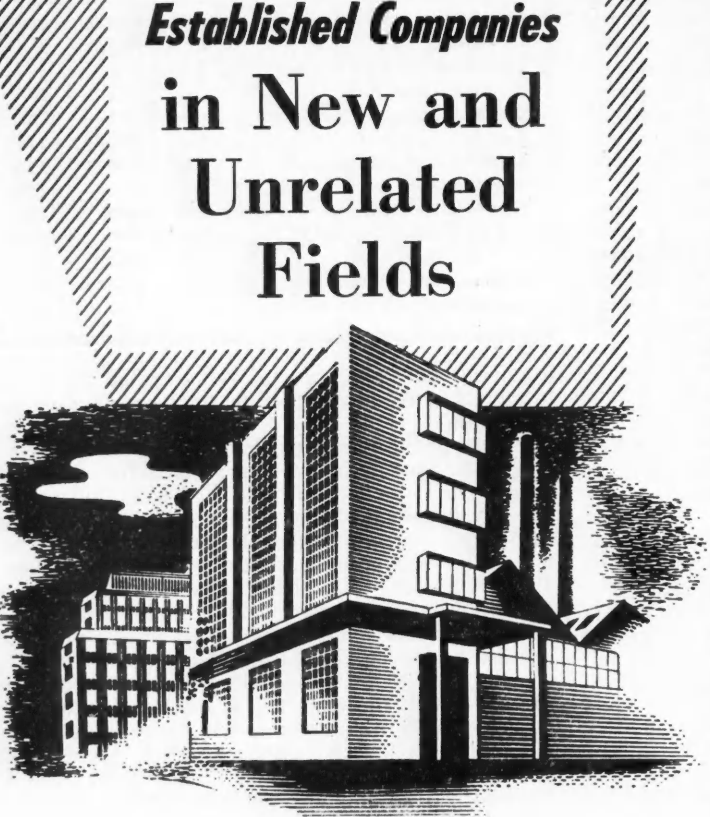
Security			Yield to Maturity
Chicago	1½s	1965-66	2%
Los Angeles	2s	1982-83	2
Massachusetts (guar.)			
Various Hous. Auth.)	2s	1982	2
Detroit	1½s	1971	2.25
Kentucky	2½s	1970-71	2.25
Nebraska (Cons. Pub. Power Dist.)	1¾s	1973-74	2.25
New York City	3s	1963	2.25
New York Port Auth.	2.20s	1980	2.25
Imperial Irr. Dist. (Calif.)	2½s	1962	2.50
N. Y. City (Hous. Auth.)	2s	1983	2.50
Washington (D. C.) (Subr. Dist.)	3¼s	1967-68	2.50
Seattle (Wash.) (Lt. & Power Rev.)	2¾s	1968	2.25

Yields on Taxable and Tax-Exempt Income Compared*

Tax Rate	Where Income Is:	Tax-Exempt Yield of:	Equivalent to Taxable Yield of	Tax-Exempt Yield of:	Equivalent to Taxable Yield of	Tax-Exempt Yield of:	Equivalent to Taxable Yield of
34%	$ 6,000- $ 8,000	2%	3.03%	2¼%	3.41	2½	3.79
38	8,000- 10,000	2	3.23	2¼	3.63	2½	4.03
42	10,000- 12,000	2	3.45	2¼	3.88	2½	4.31
48	12,000- 14,000	2	3.85	2¼	4.33	2½	4.81
53	14,000- 16,000	2	4.26	2¼	4.79	2½	5.32
56	16,000- 18,000	2	4.55	2¼	5.11	2½	5.68
59	18,000- 20,000	2	4.88	2¼	5.49	2½	6.10
62	20,000- 22,000	2	5.26	2¼	5.92	2½	6.58
66	22,000- 26,000	2	5.88	2¼	6.62	2½	7.35
67	26,000- 32,000	2	6.06	2¼	6.82	2½	7.58
68	32,000- 38,000	2	6.25	2¼	7.03	2½	7.81
72	38,000- 44,000	2	7.14	2¼	8.04	2½	8.93
75	44,000- 50,000	2	8.00	2¼	9.00	2½	10.00
77	50,000- 60,000	2	8.70	2¼	9.77	2½	10.86
80	60,000- 70,000	2	10.00	2¼	11.25	2½	12.50
83	70,000- 80,000	2	11.76	2¼	13.23	2½	14.70
85	80,000- 90,000	2	13.33	2¼	14.99	2½	16.66
88	90,000- 100,000	2	16.67	2¼	18.75	2½	20.83

*Based on tax rate for single persons under new law: for community property, divide taxable income in half and read corresponding figures.

Established Companies in New and Unrelated Fields



By GEORGE L. MERTON

Nothing is more constant and relentless than change, according to ancient philosophers, who observed with interest the vagaries of human nature. Although a lack of stability in personal relationships is readily understandable, a similar characteristic found among inanimate corporate entities is rather more surprising. Investors may be astonished at the number of readjustments that have taken place in individual companies—many of which go almost unnoticed. This thought finds confirmation in several recent rearrangements that raise questions over the significance of corporate titles.

Reviewing several instances along this line, we propose to discuss some unusual corporate developments in this article. Illustrations of recent date include the gradual shift of National Power & Light (and a change in its name) from a public utility holding company to a "venture capital" corporation owning a soft drink company and a chain of quick lunch counters; the transformation of the 58-year-old United States Leather Company from the manufacture of leather to production of natural gas; and the recent change in name of the Ferro Enamel Corporation, organized 32 years ago as "Ferro Enameling," because management felt the word "enamel" was not fully descriptive of the company's enlarged activities.

Other corporate anomalies include: Adams Express Company and American Express Company, neither of which is engaged actively in the express business; Butte Copper & Zinc Company, which produces no copper; Pennsylvania Salt Manufacturing Company, which produces hundreds of chemicals and specialties, but no salt; Petroleum Corporation of America, which owns securities in many oil companies, but produces no petroleum itself.

It may be interesting to examine more closely some of these companies. In the case of National Power & Light, for example, which was traded for several years on the New York Stock Exchange long after it had disposed of most of its power and light properties, an interesting change has taken place. The Phoenix Industries Corporation, headed by W .S. Mack, Jr., former president of Pepsi-Cola Company, acquired control of National Power from Electric Bond & Share Company, the big utility holding company formed a generation ago as an affiliate of the General Electric Company.

In the breakup of holding companies, National had disposed of its major operating properties and was in process of liquidation when the Phoenix interests gained control and arranged a merger. The successor company, known as National Phoenix Industries Corporation, owns control of Nedick's, Inc., which operates a chain of strategically located lunch counters in New York City; and Cantrell & Cochrane Ginger-ale, Ltd. Shares of the new company are traded in on the New York Curb Exchange.

New management interests are credited with directing the interesting revival of the United States Leather Company in the natural gas industry. This company dating back to a merger of several small leather manufacturing concerns in 1893 had been encountering stiff competition for several years when it was discovered that successful exploration had indicated the presence of valuable gas deposits on land the company formerly owned in western Pennsylvania.

From Leather to Natural Gas

Mineral rights had been retained when timber stands were sold. Accordingly, it was decided to concentrate on development of natural gas on this land as well as on other nearby leases and to dispose of leather properties. Proceeds of sales of several plants were disbursed in a partial liquidating dividend of $13 a share and stockholders were asked to approve at a special meeting in January dissolution of the company. The successor company is to concentrate on the natural gas business.

Another company which has experienced a great change in its fortunes is Graham-Paige Corporation, whose shares are listed on the New York Stock Exchange. It dates back to 1909 when the original company engaged in the automotive industry. As a result of a reorganization, the Paige-Detroit Motor

Car Company came into existence in 1911, and this company became the well known Graham-Paige Motors Corporation in 1928 when the Graham brothers sold their Dodge Motor Car business to Chrysler Corp. and transferred their allegiance to Paige.

Chiefly as a result of hard times in the depression, operating results were unsatisfactory and the Kaiser-Frazer Corporation gained control of the company. Another change occurred when the company sold its automotive business to Kaiser-Frazer and engaged for a time in manufacturing farm implements, but this activity proved unsuccessful. The company now is a closed-end non-diversified investment concern holding investments in Kaiser-Frazer, R. Olsen Oil Co., Frazer Farm Equipment Corp., and a few other companies.

From Express Companies to Financial Trusts

Two one-time leading express forwarding companies still retain their names, although they now are primarily financial trusts. Adams Express was organized in 1854 as a New York joint stock association and was engaged in handling express shipments and money orders until 1918, when physical properties were sold to the American Railway Express Company. Eleven years later, physical properties of American Railway Express were sold to Railway Express Agency, controlled by domestic railroads, and American Railway Express was left with $42 million in cash. After its name was changed to Railway & Express, Adams Express finally gained complete ownership and absorbed the company.

American Express Company, organized in 1868, disposed of its express business at the time of formation of American Railway Express in 1918, and turned to the traveller check and remittance business. This activity still is continued. The company controls Wells Fargo & Co., also a former express forwarding company operating on the Pacific Coast. None of these companies is engaged in conducting express business today.

Consider the American Cyanamid Company. One might imagine from the company's title that cyanamid, a white crystalline compound, probably constituted an important product. Principal products include a wide variety of pharmaceuticals, of which aureomycin probably is the best known; numerous chemicals, insecticides, fumigants, synthetic resins, plastics and all kinds of industrial chemicals. Sales of cyanamid probably account for an infinitesimal portion of gross revenues.

Properties of Butter Copper & Zinc Company, which incidentally are operated when prices warrant by Anaconda Copper Mining Company and not by the Butte management, yield manganese and zinc ores. If any copper is produced, it is not worth mentioning. Growing demand for manganese incident to a high rate of steel operations has been favorable for the company and results in recent years have been especially satisfactory.

Likewise in the case of the Buffalo Forge Company, production of forges, the heart of the old-fashioned blacksmith shop, no longer is important. The company gradually has shifted its production in keeping pace with the times to newer items—such as blowers and fans for ventilating and air-conditioning systems, heavy machine tools, pumps and similar products.

As mentioned previously, Ferro Corporation recently took steps to eliminate the word "enamel" from its title in a move to minimize confusion over products manufactured. A survey had shown that a surprising number of persons interviewed thought that the company made paint (enamel), while almost as many thought that enamelware constituted a major item.

Actually the principal product is a flaky mineral substance known as "frit" used in making porcelain enamel applied to steel sheets for refrigerators, stoves, washing machines, etc. Interestingly enough, even among security analysts opinions varied widely in a survey testing knowledge of products. Four of forty-four guessed enameling equipment and three others enameling supplies as chief products. About 75 per cent named "frit" as the correct answer.

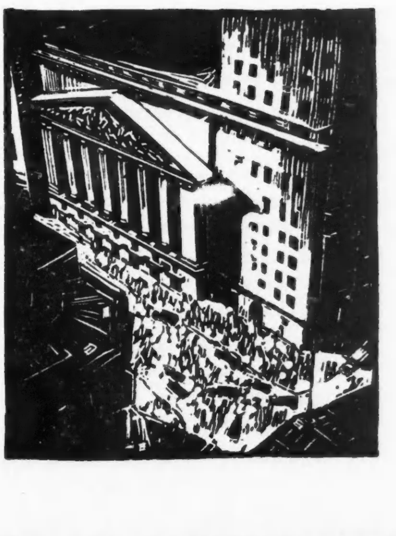
Additionally, Ferro Corporation recently has been sponsoring an undertaking for recovery of titanium by a new process that promises to cut production costs sharply. Ferro Corporation officials as a result of development work to-date vision the possibility of titanium becoming as plentiful and useful, both for defense and civilian needs, as aluminum has become.

No Oil Refining

From its title Crystal Oil Refining Corporation might be thought to be engaged in the business of refining crude petroleum, but this business was sold about fifteen years ago and income is derived currently chiefly from royalties on leased properties.

Electric Bond & Share Company might be presumed to be a distributor of stocks and bonds rather than a one-time major holding company for public utility operating concerns. In compliance with legislation aimed at breaking up utility holding companies, E.B.S. is slated to become an investment company.

Pennsylvania Salt Manufacturing Company produces a great variety of chemicals and chemical specialties, chiefly from salt or flourine. These items include ammonia, benzene hexachloride, calcium and sodium hyperchlorite, caustic soda, chlorine, detergents and numerous other products. Extensive salt beds underlying the Wyandotte, Mich., plant are owned.

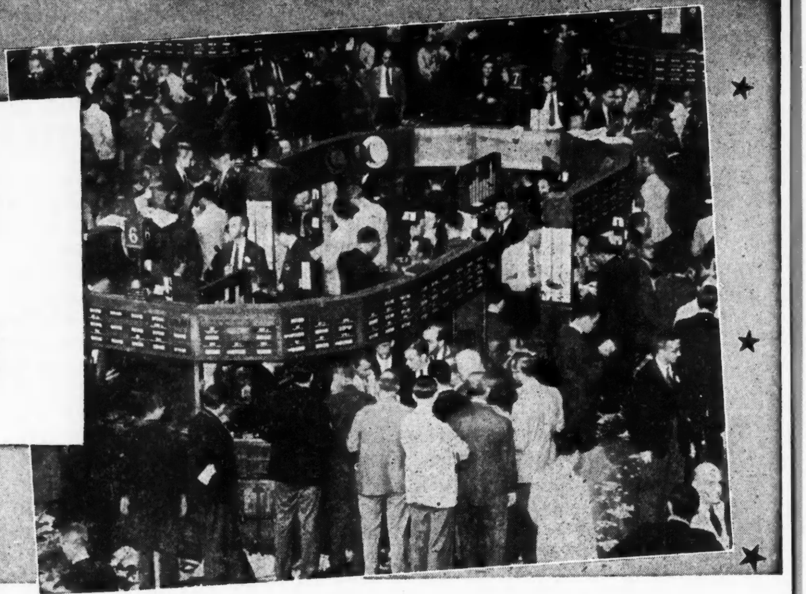


Petroleum Corporation of America was formed in 1929 to invest chiefly in stocks of oil companies, and this policy has continued. Hence, even though the company's title might suggest that it was a petroleum producer, it owns a diversified portfolio which had a market value of about $16 million at the end of 1950.

These are only a few of the many interesting evidences of constant change and growth in the financial and business world. A great many more names have disappeared from active use as readjustments have brought about economic handicaps that proved

(*Please turn to page* 306)

FOR PROFIT AND INCOME



Strategy

In making portfolio shifts to improve the safety margin, potentiality for longer-term appreciation or income return—without reducing cash reserves—there is a great deal to be said for taking at least a part of available large profits in stocks which have enjoyed exceptional investment popularity in 1951, of which some examples are drug stocks, tires, oils and paper issues, and putting the proceeds in selected semi-depressed stocks. In picking the latter the objective should be to center on stocks reasonably priced relative to current tax-reduced earnings, and which appear to have potentiality for price improvement over a fairly extended period.

For Example

For instance, 1951 has been a mediocre year for retailers, especially since the first quarter. With demand just fair and inventories heavy, mark-downs have cut into operating margins, and the retroactive tax boost has taken a heavy toll. However, substantial progress has now been made in inventory adjustment, some moderate improvement in sales has recently developed, and December sales volume is likely to exceed last year's, thus setting a new record. The prospective level of disposable personal income suggests a satisfactory 1952 demand for soft goods, probably averaging above that of 1951. Operating margins are likely to be better than they have been in the poorest quarters of 1951, making a moderate earnings betterment possible under unchanged taxes. Most present regular dividends figure to remain amply covered. Some good grade to sound department store stocks selling materially under earlier highs are Federated Department Stores, May Department Stores, Macy and Allied Stores.

Food Chains

Stocks of food store chains are also at levels ranging from substantially to largely under former levels; and this branch of retailing has better-than-average longer term prospects. The quality issues on the Big Board are First National Stores and Kroger Co., while among the more largely depressed, and more speculative, issues are Safeway Stores and Grand Union. These companies are squeezed by price ceilings, but are likely to get demonstrably justified relief. Meanwhile most if not all of the earnings shrinkage probably has been seen. Regular dividend rates of First National and Kroger are not in question. Those of Safeway and Grand Union are less assured, even though the latter's modest $1 rate should be at least twice covered in the current fiscal year, ending next February 28. The $2.40 Safeway rate, inaugurated in 1950 and well above the previous best and average levels, may be just about covered this year.

General Foods

General Foods is a widely known, large and well established "big-name" company. A large percentage of its shareholders stay with the stock through thick and thin—and the present period is on the thin side in earnings and in the stock's market per-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1951	1950
General Cigar Co.	Sept. 30 Quar.	$2.67	$1.61
Trane Company	Sept. 30 Quar.	1.90	1.57
Food Machinery & Chem.	Sept. 30 Quar.	1.04	1.01
Archer-Daniels-Midland Co.	Sept. 30 Quar.	1.38	1.14
Cincinnati Milling Mach. Co.	16 Weeks Oct. 6	1.26	.67
Kaiser Aluminum & Chemical	Aug. 31 Quar.	.97	.94
American Locomotive Co.	Sept. 30 Quar.	.80	.65
Bucyrus-Erie Co.	Sept. 30 Quar.	.81	.47
General Amer. Transport	Sept. 30 Quar.	1.70	1.26
Union Bag & Paper	Sept. 30 Quar.	1.98	1.88

formance, although not in sales or dividends. Due to higher taxes and some narrowing of overall operating margins, earnings for 1951 probably will be somewhat under $3.50 a share, against $4.58 in 1950. Dividends should continue at the regular $2.40 annual rate, since it will be adequately covered and finances are strong. Under tax-selling pressure, the stock recently sagged to a low of 39$\frac{7}{8}$, only a fraction above its 1949 low, with the daily industrial average roughly 60% above its 1949 low. It is 40$\frac{7}{8}$ at this writing, yielding close to 6% on the regular dividend. It has sold above 40 at some time in every year since 1929, with the exception of 1933, 1934 and 1935. In nearly half of the years since 1936 its highs were 48 or more. It reached 56 in 1945 and 1946, 48$\frac{7}{8}$ in 1949, 51$\frac{3}{4}$ in 1950 and 48$\frac{5}{8}$ earlier this year. The issue is normally sluggish, but is a better buy than sale at its present semi-depressed level. It could do moderately better over a period of time just on psychological adjustment to tax-cut earnings, since the worst in taxes no doubt has been reached. Thus the stock has sold anywhere from 10% to 36% above its recent low in a number of years in which both earnings and dividends were well under the present figures.

Groups

In the week prior to this writing, the best-acting stock groups included video stocks, radio-video broadcasters, finance companies, shipping, and department stores; while the softest groups included woolen goods, copper, air transport, mail order stocks, drugs and rail equipments. Of course, one week's action is a fragmentary part of the story of market selectivity, and can be affected by variations in immediate technical positions, as well as by shifts in investment attitude. For instance, rail equipments are basically out of investment favor, and long have been; while coppers and air transport stocks, despite recent recession, remain among the groups which have fared among the best so far in the entire reaction phase since mid-October. On the basis of persistent support and percentage proximity to earlier high, some outstanding groups are installment finance companies, small loan companies, electric utilities, and natural gas.

Stocks

During market recessions and rallies, up to this writing, more individual stocks continued to make new lows than to reach new highs for 1951 or longer. Among the minority which have recorded new highs are Beneficial Loan, CIT Financial, Florida Power & Light, Halliburton Oil Well Cementing, Motorola, Family Finance, United Engineering & Foundry, Birmingham Electric, Indianapolis Power & Light, Montana Power, Seaboard Finance, Utah Power & Light, and Potomac Electric Power.

Rails

Total railroad dividends in the first nine months of this year were well above the total for the like period of 1950, suggesting a full-year level at least moderately above 1950's $312 million. That is nothing to enthuse about, from this column's viewpoint. The 1950 net income of $783 million for Class I road was the best since 1942's peak of $902 million, but was only about 7.3% of gross revenue. That illustrates the basic narrowness of the industry's operating margin. It can be wiped out quickly by cyclical shrinkage in traffic; or by rising wage costs unless they are balanced by freight-rate boosts, and the latter cannot continue forever. Back in 1929, total rail income was more than 14% of gross revenue; and dividends of $490 million were more than 53% of earnings, against a pay-out of less than 41% of earnings in 1950. Rail dividends in 1950 were about 36% less than in 1929, while total corporate dividends were nearly 60% greater than in 1929. Rail earnings will be down materially this year. What they might be in 1952, this column would not try to guess. The stocks will continue to bounce up and down in the market, with no foreseeable chance of recapturing anything like their investment status of the 1920's.

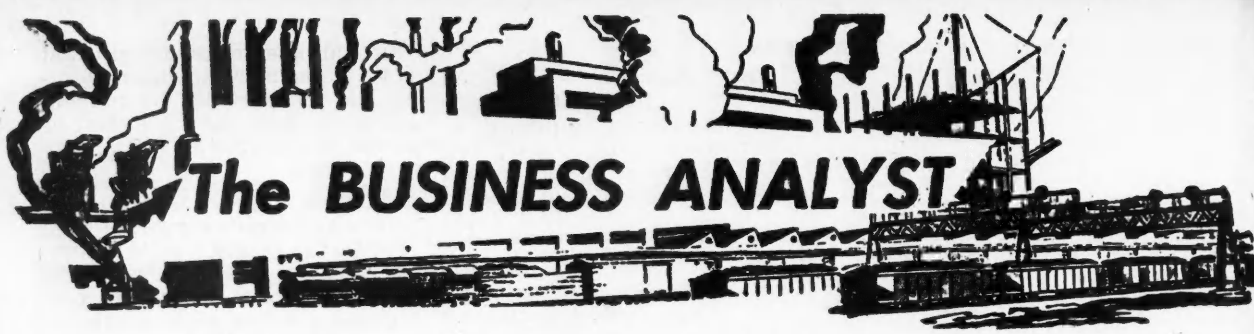
Bonds

The high-grade corporate bond market has sagged a little further in recent weeks. The reason is that new bond financing continues to be fairly heavy relative to immediately available investible funds of insurance companies. Hence new issues can be sold only on a yield basis attractive to buyers. There is, indeed, pretty much of a buyer's market at present. Coupon rates as high as 3$\frac{1}{2}$% are not uncommon and yields of seasoned issues have to adjust partly to this temporary condition. They now average slightly over 3%. Average industrial stock yields are still about 109% more than that, against close to 180% more late in 1950. The yield differential is not positively adverse to the stock market, but it is much less favorable than it was from early 1949 to early 1951. Institutional funds will increase in 1952, while mortgage loan demand will shrink and new corporate bond financing is more likely to contract after mid-1952 than to expand further. At the same time, the Government bond market will be "supported upward" by the Federal Reserve to facilitate Treasury deficit financing. The column's conclusion is that high-grade bonds are "scraping bottom", that they probably will not firm up much, if any, for another three to five months and that a relatively strong bond market is highly probable in the second half of 1952. As far as it goes—although it could be more than balanced by other investment considera-

(*Please turn to page* 308)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

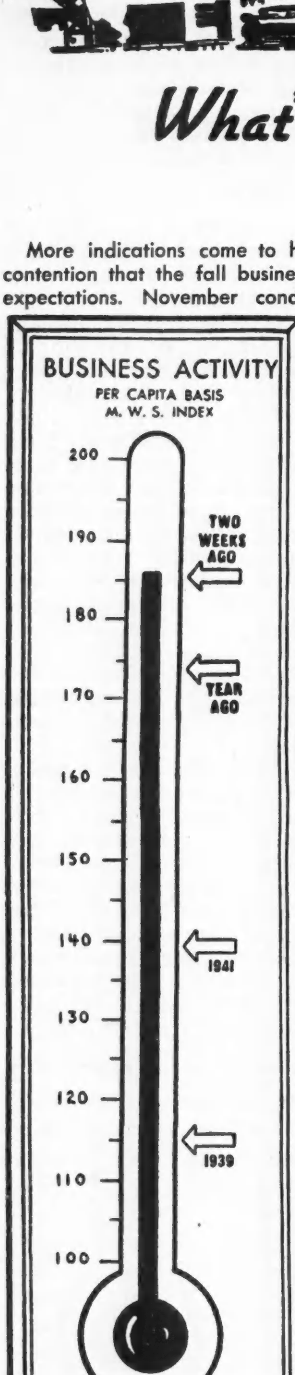
		1951	1950
Container Corp. of America	Sept. 30 Quar.	$ .96	$1.40
Celanese Corp. of America	Sept. 30 Quar.	.77	1.67
Trans World Airlines	Sept. 30 Quar.	1.48	2.24
Boeing Airplane	9 mos. Sept. 30	3.74	7.58
Cleveland Graphite Bronze	Sept. 30 Quar.	.47	1.82
Coca-Cola Co.	Sept. 30 Quar.	2.18	2.47
Commercial Credit Co.	Sept. 30 Quar.	2.05	2.40
Fruehauf Trailer Co.	Sept. 30 Quar.	.62	1.74
Pitney-Bowes Inc.	Sept. 30 Quar.	.29	.42
Du Pont	Sept. 30 Quar.	.84	2.08



What's Ahead for Business?

By E. K. A.

More indications come to hand to support our previous contention that the fall business upswing is not quite up to expectations. November conditions, reports the National Association of Purchasing Agents in its latest monthly survey, do not support the trend of increasing industrial activity found developing in September and October. Industrial activity is reported a shade under the previous month, with back orders taking a further drop and production lagging a little behind the order position. Defense production is increasing but is still concentrated, though more subcontracting is apparent. Prices are strong and expected to continue so under OPS regulation to apply the Capehart amendment. Whether or not such authorized prices will hold depends largely upon supply and demand. Currently industrial demand is slowing and may continue to decline as civilian manufacturers adjust schedules to lower controlled materials allotments.



This overall picture is confirmed by the Federal Reserve Board which states that industrial production failed to increase from September to October and remained stable in November. October output came to 219% of the 1935-39 average, the same as in September, whereas production hit a postwar peak of 223% last April. Output of major consumer durable goods which had staged a mild recovery in September, sagged again in October when output at 102% of the 1947-49 average (new index) was down five points from September. Passenger car output was off nine points, that of major appliances 12 points.

Returning to the Board's Industrial Production Index, it is significant that the sub-index for durable manufactures which also includes military "hardware," rose only two points from 272 to 274 while the index for non-durables dropped three points from 192 to 189. A year ago, the latter was 196, the durable index 261.

Generally speaking, this picture which essentially signifies continuation of the "lull" which followed the post-Korean boom waves, reflects three things: (1) Slow readjustment of inventories which remain top-heavy in many fields. (2) Slow increase in defense production. (3) Continued lag of consumer demand and resistance to high prices.

This holds true despite the current upswing in retail trade, largely of a seasonal nature. Christmas trade is gaining momentum but there still is considerable spottiness in comparative sales volume. While the outlook remains favorable for substantial gains over a year ago, much of this may be due to higher prices rather than bigger physical volume. Considerable price consciousness, particularly when it comes to higher-priced items, is freely admitted and it remains to be seen what this attitude will do to over-all volume potentials. Even more doubt exists over what will happen after Christmas, whether the momentum of holiday buying will at least to some extent carry into the new year or whether merchants will find themselves back pretty much where they were before the seasonal revival. Few are overly optimistic on this score.

Right now, it is reported, buying preference is noted to be in favor of medium-priced merchandise, accompanied by a considerable consumer sifting of values. The factor of consumer price resistance is illuminated by a recent survey showing that 60% of the businesses canvassed reported customer resistance to prices, against 36% last year. Such price opposition was reported to have produced a significant reduction in the volume of future orders and commitments at manufacturing and wholesale levels.

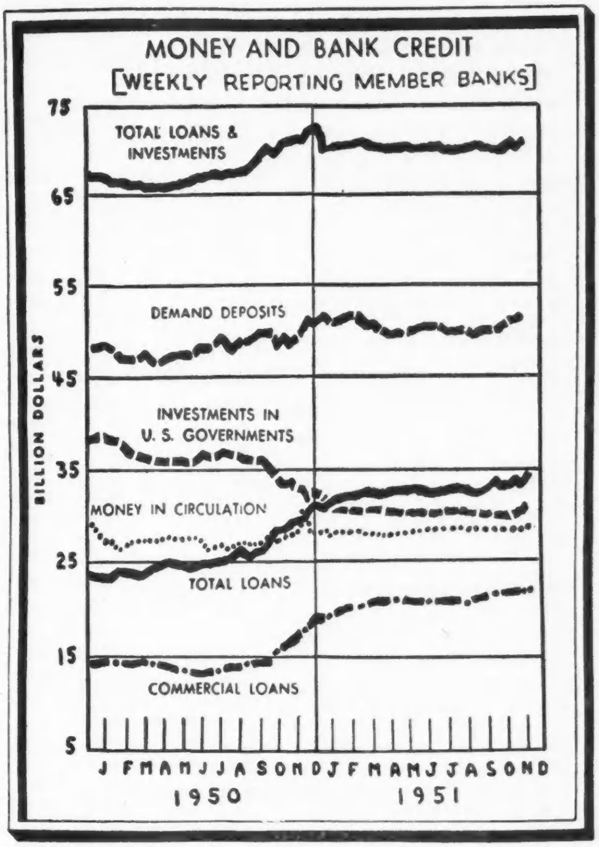
There has been a great deal of theorizing and explaining in connection with consumer attitudes, including this column, which repeatedly has pointed out the more obvious factors. We have also stated, rather categorically, our assumption that a good many consumers are simply "broke" and cannot afford much buying outside of necessities, and that altogether too much weight is given to the incidence of high overall consumer income.

In this connection, we would like to cite the results of the latest Census Bureau analysis, showing that the top fifth of the U. S. population gets nearly half of the nation's money income, while the bottom fifth gets only 3%. In other words, income is distributed quite unevenly which certainly has a bearing on spending trends.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—The nation's money supply, consisting of all bank deposits plus currency outside the banks, rose by $3.7 billion in October, one of the largest monthly increases on record. At the month's end, the money supply totalled $181.6 billion against $172.8 billion a year ago. The October increase was made up of a $300 million rise in currency and a $400 million increase in time deposits while demand deposits jumped $3.0 billion from the level of September 26 to total $95.0 billion against $89.2 billion a year ago. Main factor in the increase in total money supply was a $1.9 billion rise in bank credit made up of a $800 million rise in loans and a $1.1 billion increase in holdings of government securities. In addition, Treasury deposits fell by $1.7 billion and these went into private hands. Bankers were greatly interested by news that two insurance companies had agreed to lend Union Carbide and Carbon Co. $300 million for a 100-year period at a 3¾% interest rate, without the protection of a sinking fund or mortgage. This rate looks pretty low when it is realized that 90-day prime commercial loans now bring 2¾%. Government bonds declined last week with the non-bank 2½'s of December 1972-'67 closing at 96-22/32 on December 3, down ⅛ from the previous week. These bonds made a new low for the year late in November at 96½ against a low of 96¾ some six months earlier. The new 201-day tax bills originally sold to yield 1.497% are now yielding 1.60%. The decline in price is explained by the fact that original bank buyers were willing to pay more as they secured a government deposit equal to the amount of bills bought. The Treasury's refunding operations for 1951 will be wound up with an exchange offer of 1⅞% eleven and one-half month certificates maturing December 1, 1952, for the 2¼% Treasuries of 1951-1953 which have been called for redemption. Maturities next year will be heavy including $3.8 billion of Series E Savings Bonds; $9.5 billion of 1⅞% certificates of indebtedness due on April 1, $5.2 billion of similar certificates due on July 1 and $10.9 billion maturing October 1.



TRADE—Christmas shopping appears to be gaining momentum with apparel offerings finding ready customers in the week ending Wednesday, November 28, while foods were relatively neglected. Demand for household goods and television sets was somewhat better than the week before while glassware and toys were popular. Department store sales for the week ending November 24 marked up an 11% gain over the corresponding week of last year. However, sales a year ago were abnormally depressed by a hurricane in the Eastern part of the nation and sections of the Mid-West.

INDUSTRY—Industrial buyers report that November business did not support the promise of improvement that was developing in October according to a survey by the National Association of Purchasing Agents. Order backlogs fell during November and production was slightly lower during the month. The Federal Reserve Board reports that its Production Index in October was unchanged from September levels while November is expected to show little change. Gains in output of durable goods were offset by a drop in non-durables. In heavy industry the best gains were in production of machinery. The Board's new index of major consumer durable goods output fell to 102% of the 1947-1949 average from 107 in September and 166 in October 1950. Declines were noted in production of passenger cars and major appliances while output of carpets, furniture, radio and television sets were higher in October.

COMMODITIES—Progress of negotiations for a Korean armistice appears to have had very little effect on commodity prices thus far. In the week ending November 27, the all-inclusive Bureau of Labor Statistics Wholesale Price Index has risen slightly to 177.6 from 177.2 the previous week. The index now stands 13.2% above the pre-Korean average of May 24-June 25, 1950, and 2.9% above the level of a year ago. On the other hand the more sensitive daily index of spot prices computed by the same agency registered a decline for the second week in a row. In the latest week the drop was 0.8% and this brought the index to a level 16.8% below the all-time high record reached on February 16 of this year. However, the index was still 22.5% above the pre-Korean average.

The dollar value of **NEW CONSTRUCTION** continues

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Oct.	3.2	2.6	1.3	1.55
Cumulative from mid-1940	Oct.	430.9	427.7	400.9	13.8
FEDERAL GROSS DEBT—$b	Nov. 29	259.7	258.3	257.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Nov. 21	52.4	52.2	49.9	26.1
Currency in Circulation	Nov. 28	28.7	28.7	27.5	10.7
BANK DEBITS					
New York City—$b	Nov. 21	12.8	9.4	10.3	4.26
93 Other Centers—$b	Nov. 21	18.0	14.4	15.3	7.60
PERSONAL INCOMES—$b (cd2)	Sept.	253	254	232	102
Salaries and Wages	Sept.	168	167	150	66
Proprietors' Incomes	Sept.	48	50	45	23
Interest and Dividends	Sept.	21	20	22	10
Transfer Payments	Sept.	13	13	11	3
(INCOME FROM AGRICULTURE)	Sept.	22	22	19	10
POPULATION—m (e) (cb)	Oct.	155.0	154.8	152.4	133.8
Non-Institutional, Age 14 & Over	Oct.	109.0	109.0	109.4	101.8
Civilian Labor Force	Oct.	63.5	63.2	63.7	55.6
unemployed	Oct.	1.6	1.6	1.9	3.8
Employed	Oct.	61.8	61.6	61.8	51.8
In Agriculture	Oct.	7.7	7.5	8.5	80
Non-Farm	Oct.	54.2	54.1	53.3	43.8
At Work	Oct.	60.0	58.5	60.1	43.2
Weekly Hours, non-farm	Oct.	41.4	38.1	41.3	42.0
Man-Hours Weekly—b	Oct.	2.48	2.23	2.48	1.82
EMPLOYEES, Non-Farm—m (lb)	Oct.	46.8	46.9	45.9	37.5
Government	Oct.	6.5	6.5	6.0	4.8
Factory	Oct.	13.0	13.1	13.1	11.7
Weekly Hours	Oct.	40.4	40.6	41.3	40.4
Hourly Wage (cents)	Oct.	161.3	161.2	150.1	77.3
Weekly Wage ($)	Oct.	65.17	65.45	61.99	21.33
PRICES—Wholesale (lb2)	Nov. 27	177.6	177.2	172.6	92.5
Retail (cdlb)	Sept.	207.3	206.1	192.6	116.2
COST OF LIVING (lb3)	Oct.	187.4	186.6	175.6	100.2
Food	Oct.	229.2	227.3	210.6	113.1
Clothing	Oct.	208.9	209.0	193.0	113.8
Rent	Oct.	138.2	137.5	132.0	107.8
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Sept.	12.3	12.5	12.4	4.7
Durable Goods	Sept.	4.2	4.2	4.7	1.1
Non-Durable Goods	Sept.	8.1	8.3	7.7	3.6
Dep't Store Sales (mrb)	Sept.	0.88	0.90	0.90	0.39
Retail Sales Credit, End Mo. (rb2)	Sept.	11.0	11.0	11.6	5.5
MANUFACTURERS'					
New Orders—$b (cd) Total	Sept.	21.3	22.8	23.5	14.6
Durable Goods	Sept.	9.8	10.9	12.1	7.1
Non-Durable Goods	Sept.	11.5	11.9	11.4	7.5
Shipments—$b (cd)—Total	Sept.	21.8	22.6	21.0	8.3
Durable Goods	Sept.	9.9	10.3	9.8	4.1
Non-Durable Goods	Sept.	11.9	12.3	11.2	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Sept.	69.8	70.1	55.1	28.6
Manufacturers'	Sept.	40.9	40.6	30.1	16.4
Wholesalers'	Sept.	10.1	10.1	8.4	4.1
Retailers'	Sept.	18.8	19.4	16.6	8.1
Dept. Store Stocks (mrb)	Sept.	2.6	2.7	2.4	1.2
BUSINESS ACTIVITY—1—pc	Nov. 24	186.6	186.7	174.8	141.8
(M. W. S.)—1—np	Nov. 24	217.7	217.9	206.1	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 295)

to drop and amounted to $2,692 million in October, compared to the year's high of $2,859 million spent in August for this purpose. Private construction in October totalled $1,789 million against $1,879 million a month earlier and $2,025 million in October of 1950. The sharpest month-to-month drop occurred in non-residential building at $390 million, down from September's $451 million outlay but still above the $382 million spent in Ocotber of last year. Public construction of $903 million in October was under the $958 million expended in September as highway construction sagged. Military and naval building rose to $127 million from $120 million in September and this was sharply above the $28 million spent in October of last year

* * *

Sales of the **GAS UTILITY INDUSTRY** to ultimate consumers during September amounted to 3,179 million therms, a gain of 13.9% over the same month a year ago, but some 2% below sales for August of this year, the American Gas Association reported. Sales of **NATURAL GAS** at 2,980 million therms were 15.2% above the 2,586 million therms sold in September 1950 while sales of manufactured gas dropped 27.1% to 91 million therms from 125 million therms a year ago. For the twelve months ending September 30, 1951 total gas sales rose to a new high of 46,472 million therms compared to sales of 40,313 million therms in the previous corresponding period.

* * *

FREIGHT CAR PRODUCTION topped 10,000 cars for the first time since April, 1949. October saw production of 10,082 against 8,533 cars in September of this year and 5,501 in October 1950. **NEW ORDERS** were received for 3,464 freight cars during October and the backlog fell to 132,792 cars on November 1 against 140,135 on October 1 and 122,488 on November 1 of last year. The present production rate may not be maintained very long in view of the production goal of 24,450 freight cars set for the first quarter of next year by the National Production Authority. The scarcity of critical materials will also hamper output.

* * *

Manufacturers' **RAYON SHIPMENTS** during October totalled 82.2 million pounds, slightly below the 82.6 million pounds shipped in September but markedly below the 107.9 million pounds delivered in October last year, according to data compiled by Rayon Organon. Although rayon production has been cut it

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Oct.	219	219	216	174
Mining	Oct.	171	167	166	133
Durable Goods Mfr.	Oct.	274	272	261	220
Non-Durable Goods Mfr.	Oct.	189	192	196	151
CARLOADINGS—t—Total	Nov. 24	711	814	701	833
Misc. Freight	Nov. 24	343	392	346	379
Mdse. L. C. L.	Nov. 24	63	73	71	156
Grain	Nov. 24	49	53	50	43
ELEC. POWER Output (Kw.H.) m	Nov. 24	7,157	7,333	6,508	3,267
SOFT COAL, Prod. (st) m	Nov. 24	10.1	11.5	9.2	10.8
Cumulative from Jan. 1	Nov. 24	478	468	458	44.6
Stocks, End Mo.	Sept.	76.2	75.4	59.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Nov. 24	6.2	6.2	5.9	4.1
Gasoline Stocks	Nov. 24	112	110	106	86
Fuel Oil Stocks	Nov. 24	48	48	46	94
Heating Oil Stocks	Nov. 24	99	100	87	55
LUMBER, Prod.—(bd. ft.) m	Nov. 24	513	617	505	632
Stocks, End Mo. (bd. ft.) b	Sept.	8.1	7.9	6.4	12.6
STEEL INGOT PROD. (st) m	Oct.	9.10	8.65	8.75	6.96
Cumulative from Jan. 1	Oct.	87.4	78.3	80.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Nov. 29	179	163	260	94
Cumulative from Jan. 1	Nov. 29	12,776	12,599	10,927	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Nov. 24	144	187	181	165
Cigarettes, Domestic Sales—b	Oct.	38	31	30	17
Do., Cigars—m	Oct.	591	491	554	543
Do., Manufactured Tobacco (lbs)m	Oct.	14	19	21	28

PRESENT POSITION AND OUTLOOK

is still running above shipments with the result that **RAYON STOCKS** in the hands of producers rose to 83.4 million pounds at the end of October against 62.9 million pounds in September and only 14.2 million pounds in October of last year.

* * *

IMPORTS into the United States fell sharply in September to $734.7 million from $880.1 million in August, the Bureau of the Census announced. Important decreases in imports occurred in unmanufactured wool and burlap, cocoa, coffee, sugar, tin ore, lead and rubber. September **EXPORTS** totalled $1,230.7 million against an August total of $1,266.9 million and $911.0 million in September a year ago. The September 1951 exports include $81.2 million worth of goods shipped under the Mutual Defense Assistance Program while in August, shipments under this program totalled $115.3 million. Export decreases in September occurred in machinery, vehicles, and grains while increases were noted for exports of raw cotton and tobacco.

* * *

Factory sales of household **VACUUM CLEANERS** in October totalled 259,469 units, an advance of 23.5% over the total of 210,086 sold in September, but still 21.7% below the 331,445 units sold in October of last year.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. edlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated, en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long tons. m—Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment sale credit and charge accounts. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

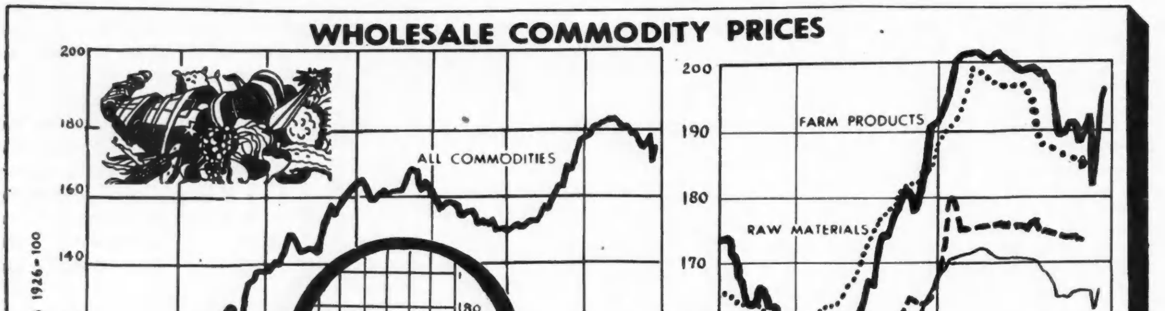
No. of Issues (1925 Cl.—100)	1951 Indexes High	Low	Nov. 24	Dec. 1
334 COMBINED AVERAGE	204.6	172.6	188.1	193.2
4 Agriculaural Implements	318.0	246.5	288.4	295.8
10 Aircraft ('27 Cl.—100)	339.1	252.8	289.8	292.9
7 Air Lines ('34 Cl.—100)	764.7	634.0	712.4	738.6
8 Amusement	112.5	86.6	98.2	100.9
10 Automobile Accessories	257.6	216.2	232.3	241.5
11 Automobiles	46.3	36.1	38.6	39.8
3 Baking ('26 Cl.—100)	23.2	21.0	21.6	21.4
3 Business Machines	410.1	300.8	386.6	392.5
2 Bus Lines ('26 Cl.—100)	183.1	150.6	155.7	155.7
6 Chemicals	427.8	326.0	365.8	382.1
3 Coal Mining	18.3	13.2	14.4	14.5
4 Communications	72.5	58.3	62.6	67.5
9 Construction	73.0	60.2	70.1	69.5
7 Containers	490.6	376.5	454.3	472.4
9 Copper & Brass	171.9	126.3	160.1	162.8
2 Dairy Products	84.0	75.9	78.3	80.0
5 Department Stores	84.5	66.0	67.4	70.3
5 Drugs & Toilet Articles	235.0	209.4	209.4	215.7
2 Finance Companies	315.4	243.0	303.2	315.4A
7 Food Brands	200.9	171.4	171.4	173.2
2 Food Stores	118.4	99.3	100.4	100.4
3 Furnishings	75.0	63.1	63.1	63.1
4 Gold Mining	779.8	579.3	657.3	651.7

(Nov. 14, 1936, Cl.—100)	High	Low	Nov. 24	Dec. 1
100 HIGH PRICED STOCKS	124.4	107.1	114.2	117.7
100 LOW PRICED STOCKS	252.9	208.6	230.9	237.2
5 Investment Trusts	98.9	84.8	93.1	95.6
3 Liquor ('27 Cl.—100)	1250.1	1066.6	1089.6	1112.5
11 Machinery	215.7	177.7	200.7	206.4
3 Mail Order	152.0	125.3	132.0	132.0
3 Meat Packing	109.1	85.7	94.0	95.0
13 Metals, Miscellaneous	314.0	233.0	282.6	292.5
4 Paper	416.9	344.3	373.2	400.1
29 Petroleum	447.3	355.0	408.3	422.5
30 Public Utilities	155.6	142.5	154.2	155.6
9 Radio & TV ('27 Cl.—100)	32.6	26.6	29.1	31.4
8 Railroad Equipment	73.8	57.5	61.6	63.6
24 Railroads	45.4	34.2	38.1	40.5
3 Realty	41.0	34.3	37.4	39.0
3 Shipbuilding	184.4	139.1	165.9	174.3
3 Soft Drinks	395.5	303.5	306.9	317.0
15 Steel & Iron	169.5	134.1	148.9	151.8
3 Sugar	77.6	66.5	71.0	71.0
2 Sulphur	655.3	425.3	542.5	551.2
5 Textiles	223.6	189.3	195.4	195.4
3 Tires & Rubber	75.3	51.2	63.1	67.0
6 Tobacco	86.7	75.3	81.8	81.0
2 Variety Stores	325.6	301.1	313.4	313.4
20 Unclassified ('49 Cl.—100)	127.3	109.4	115.1	116.3

A—New High for 1951.

Trend of Commodities

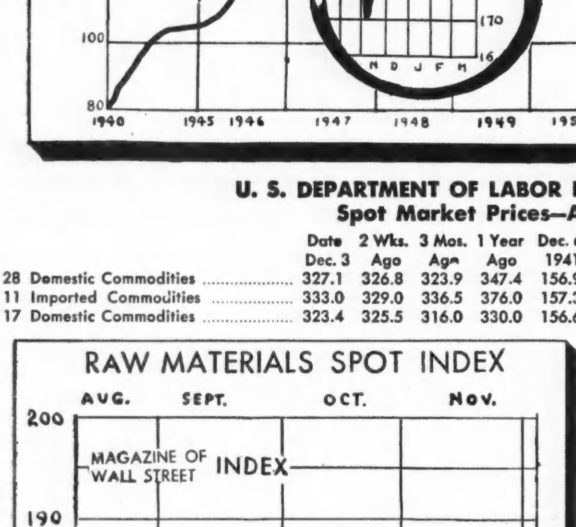
Commodity futures have been irregular in the past fortnight with wheat and cotton reflecting strong demand while most other commodities have been featureless. The nearby December wheat option was up 3¾ cents during the period to close at 26½ on December 3, the prime motivating factor being the large export requirements which may reach 400 million bushels for the season. The wheat carry-over at the end of this season may be as low as 290 million bushels compared with 395 million bushels on July 1, 1950. With 289 million bushels either under CCC price support or owned by the Government, extreme tightness of supplies may prevail unless farmers redeem loan wheat or the Government sells more liberally. Feed grains were slightly lower during the past two weeks despite dwindling feed supplies caused by an increased livestock population and a wet corn crop. However with the corn-hog ratio down to 10.0 on November 17 against 11.4 a year ago, feeding profits are shrinking and this may cause a reduction in livestock herds over the long term. Cotton has been quite strong with old crop options reaching new seasonal highs. The March 1952 future closed at 43.24 on December 3, up 190 points from November 19 levels. The trade is looking for the next corp report—due December 10—to show another cut in the expected crop, perhaps down to less than 15 million bales which would compare with the official November estimate of 15,771,000 bales. However domestic demand is still slow and it is doubtful that consumption this season will come up to optimistic Washington forecasts, nor are exports expected to reach the 6.5 million bales mentioned in earlier forecasts. Farmers are showing greater willingness to sell their cotton above the 42c level.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Dec. 3	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
28 Domestic Commodities	327.1	326.8	323.9	347.4	156.9
11 Imported Commodities	333.0	329.0	336.5	376.0	157.3
17 Domestic Commodities	323.4	325.5	316.0	330.0	156.6

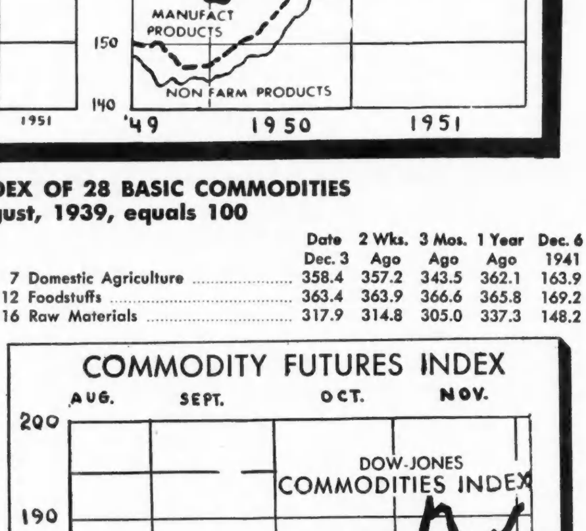
	Date Dec. 3	2 Wks. Ago	3 Mos. Ago	1 Year Ago	Dec. 6 1941
7 Domestic Agriculture	358.4	357.2	343.5	362.1	163.9
12 Foodstuffs	363.4	363.9	366.6	365.8	169.2
16 Raw Materials	317.9	314.8	305.0	337.3	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1951	1950	1947	1945	1941	1939	1938	1937
High	214.5	304.7	164.0	95.8	74.3	78.3	65.8	93.8
Low	174.8	134.2	126.4	93.6	58.7	61.6	57.5	64.7



Average 1924-26 equals 100

	1951	1950	1947	1945	1941	1939	1938	1937
High	215.4	202.8	184.4	111.7	88.9	67.9	57.7	86.6
Low	176.4	140.8	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Another extraordinary project for **Pacific Gas & Electric Company's** large post-war expansion program has been announced. The company will construct at Pittsburgh, Contra Costa County, the largest power plant in California—an $80 million steam-electric generating station, with a capacity of 600,000 kilowatts (800,000 horsepower). This plant will be 150,000 kilowatts (200,000 horsepower) greater in capacity than the total of Shasta and Keswick powerhouses of the Central Valley Project. It will be the biggest steam-electric plant west of the Mississippi. The new huge powerhouse will have four G-E generators and will produce nearly four times as much electric power per barrel of fuel oil as did the generators in use around the turn of the century.

In pursuance of the comprehensive mechanization program which was inaugurated several years ago by the **Pennsylvania Coal and Coke Company,** an additional $1.5 million expenditure has been authorized to complete this mechanization project. A sizeable portion of the order has gone to the **Joy Manufacturing Co.** It is expected that when the program is completed, these Pennsylvania mines will be models of modern mechanization, and should place the company in a good competitive position. The expansion program also includes the acquisition of other mines, making possible the production of 3.5 million tons a year.

The Republic of Venezuela and the International Standard Electric Corp., an associate of the **International Telephone & Telegraph Corp.,** have signed a contract for just under $3 million covering a co-ordinated system of air navigation, plane location, air-to-ground, and point-to-point communication facilities for 47 Venezuelan airports. Under terms of the contract, Int. Standard Electric will furnish strategically-located radio direction finders and low-frequency homing beacons permitting the pilot of any plane operating between the various Venezuelan airports to determine his exact position at any time during flight.

General Electric Corporation's lamp department is now using aluminum instead of brass for a large portion of its output of bases for incandescent electric light bulbs. Aluminum is being employed to conserve the scarcer brass for the nation's military needs, with the company now in a position to use whichever metal may be in least critical supply as a result of the mobilization program. This new use of aluminum has been approved by the National Production Authority. Adoption of aluminum for lamp bases is considered by the aluminum industry to be one of the most important recent developments in the application of this metal. Lamp bulbs with aluminum bases are commencing to appear on retail counters in many parts of the country. The new bases have the advantage of being resistant to tarnishing.

The **Chrysler Corporation** has developed what is known as the Chrysler Design Railroad Freight Truck to protect railway freight shipments by reducing shock and vibration in transit and will be used as government-specified equipment on new railroad ammunition cars going into service after the first of the year. Ammunition cars ordered by the U. S. Army Transportation Corps for the Navy and now being built will be equipped with the Chrysler design units, identical to those which have been in intensive service for more than three years on many of the nation's railroads.

The Long Lines Department of the **American Telephone & Telegraph Company** has opened commercial radiotelephone service between the United States mainland and the island of Guam. Connection to the island outpost was made by means of a 5,000-mile circuit between the Long Lines' short wave station near San Francisco and the radio station on Guam operated by FCAC. From San Francisco, conversations travel over A.T.&T.'s wire and cable facilities to Washington and New York. Guam's harbor facilities and airport make it one of the most important in the chain of U. S. bases in the Pacific.

Rheem Manufacturing Company has formed a new division known as Rheem International. The latter will operate all the overseas investments of Rheem Manufacturing Co., and will also handle all sales of Rheem products abroad. The company at present has affiliated manufacturing companies in Argentina, Australia, Brazil, Canada, Italy, Peru, Singapore and the United Kingdom. The purposes of the move are to take greater advantage of the expanding activities of Rheem abroad. New products recently announced include gas ranges and gas absorption type refrigerators, rounding out the company's full line of household appliances.

Moore-McCormack Lines has announced a program to improve stateroom facilities on each of three passenger vessels. This has been undertaken coincident with renewal of the line's contract with the Federal Maritime Administration to operate the Good Neighbor Fleet for an additional four years. This represents the most drastic change in the facilities of the three ships—the S.S Brazil, S.S Uruguay, and the S.S Argentina—since they resumed operation in the South American passenger service after the close of the war.

A large new continuous annealing and pickling unit for the large-scale production of specialty sheet brass has been placed in operation by the Chase Brass & Copper Co., fabricating subsidiary of the **Kennecott Copper Corporation,** at its Waterbury, Conn., plant. The new combination unit is believed to be one of the largest continuous annealers in the brass industry and will process for Chase 140,000 pounds of brass daily.

American Cyanamid Company early next year is expected to start building a large plant in Avondale, La., a few miles above New Orleans. The plant, which will produce nitrogen compounds for synthetic fibres and commercial chemicals will cost an estimated $47,750,000. The Defense Production Administration has granted the company a certificate of necessity entitling it to accelerate amortization of construction costs for income tax purposes.

Standard Oil Company (Ohio) has projected a $14 million modernization and expansion program for its Toledo and Lima, Ohio, refineries. Certificates of necessity have been received from the Defense Production Authority, togther with priority ratings for the project and will take about 15 months to complete. The new installation will double its capacity. In 1950, **SOHIO** completed a $30 million expansion program at its Lima refinery. This included construction of a catalytic cracker, a lubricating oil plant and a crude coking unit.

Acme Steel Company of Chicago has formed a new division, Acme Steel Products Division, effective Jan. 1. It will operate as an independent sales and distributing company for steel strapping, tools and accessories, stitching wire and equipment. It is expected that the new firm will strengthen the company's competitive position and that its major consumer products has now reached a volume that justifies a separate organization wholly responsible for sales and distribution. The parent company will continue to handle its own sales of strip steel and special products.

Continental Oil Company has announced plans for installing a platforming unit at its Lake Charles, La., refinery. The new installation will have a daily charge capacity of 5,000 barrels for production of scarce aromatics, or 6,000 barrels of motor fuel. The unit will process charge stocks in the 150-220 degree boiling range of coastal straight run gasoline for making benzene and toluene.

Firestone Tire & Rubber Company has concluded negotiations with Harburger Gummiwaren-Fabrik Phoenix Aktiengesellscahft of Hamburg, Germany, that will provide an interchange of technical information and assistance between the two companies. The arrangement will enable the German firm to produce tires and tubes of Firestone quality, and will give Firestone the benefit of technical developments of on of Europe's outstanding rubber companies. The German concern employs over 6,000 workers and has been established for 96 years.

Food Machinery & Chemical Corporation has been authorized by the U. S. Army to construct a nitric acid plant at the Sunflower Ordnance Works, Sunflower, Kansas. The company has been operating a pilot plant for some time at San Jose, producing a ton of nitric acid, using a new process developed by the University of Wisconsin. The new process makes the acid directly from the air. It will be used at Sunflower and have a daily capacity of 40 tons. Large amounts of nitric acid are required for making explosives and propellents. It can also be used in making fertilizers, since it contains nitrogen. Low cost nitric acid, moreover, can be used as a substitute for sulphuric acid, acutely short because of the shortage of sulphur.

Pan American World Airways and **Eastern Airlines** are ready to put into operation a program to step up through air service between this country and Latin America. Under the new program, which is awaiting approval from the Civil Aeronautics Board, through service will be opened for the first time between Boston, New York and Washington, in the states, and the Bahamas, Jamaica, Colombia, western Venezuela, Panama, the west coast of South America and Argentina. The plan involves flying planes of Pan-American Grace Airways—South American part of the Pan American system—directly to cities in the northeastern United States. This arrangement will eliminate changes of planes at Miami for "thousands of passengers annually." The need to meet "foreign flag" competition is given as the main reason for the change.

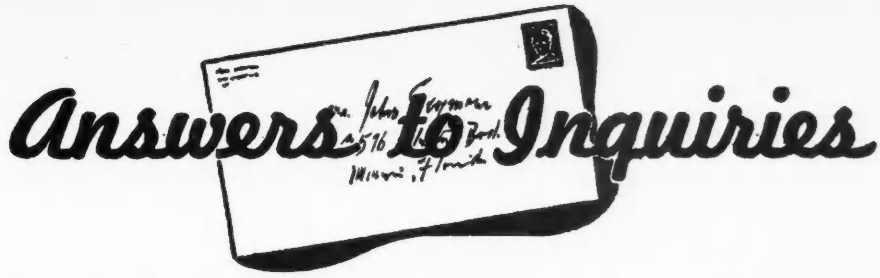
Shell Oil Company has plans for a $30 million modernization and expansion program at its refinery at Norco, La. This will boost the plant's daily output of petroleum products almost 50%, from 2,150,000 million to 3,150,000 million gallons. Recent discoveries of new sources of crude oil in Louisiana is a factor in the company's decision to expand and modernize the facility. The most important new unit to be added will be a large modern catalytic cracking plant, essential to the production of high-test aviation gasoline. Crude distillation will also be increased, with additional storage tanks and other facilities. The expansion is part of a nationwide Shell program that will cost $100 million and add 4 million gallons daily to the company's national output.

Kaiser Aluminum & Chemical Company plans a refinancing program to retire present bank loans and pay for the estimated $100 million additional facilities needed to double the capacity of its New Orleans aluminum plant. The proposed $100 million financing for new facilities would include the $50 million remaining from bank loans, $33.5 million from bonds, and $16.5 million from the sale of new preferred stock. Under the proposed contract with the government for doubling the capacity of the New Orleans plant, Kaiser Aluminum will sell the government 500,00 short tons of aluminum to be produced by the additional facilities at the rate of 100,000 tons a year.

Kroger Company's capital expenditures for the first half of the year under a program of constructing, relocating and remodeling 137 stores and 2 warehouses amounted to $7.1 million. The program of expansion has continued unabated but tighter controls under N.P.A. regulations are commencing to affect new construction. Up to the present Kroger has been completing stores which had been started or for which materials had been purchased before the controls went into effect.

Punch cards are speeding the movement of freight on the **Union Pacific Railroad,** now that the initial installations of a new system of car reporting have been completed in the railroad's yards at Council Bluffs, Iowa, North Platte, Neb., and Cheyenne, Wyo. Mechanization of the yard offices at these points with **International Business Machines** equipment, coupled with teletype machines, has brought about a faster, more accurate method of transmitting the make-up of trains from yard to yard, and the handling of shipments and car tracing. By-products of the system result in faster preparation of various reports necessary and the accounting involved in the movement of freight. The new system is valuable in simplifying the railroad's accounting problems.

Answers to Inquiries



The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities* at reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

McGraw Hill Publishing Company

"In view of the increased postal rate for mailing out magazines to take effect next April 1, I would be interested in knowing what McGraw Hill Publishing Company earnings have been and whether the company is taking any steps to offset the increased cost."

N. M., LaCrosse, Wisconsin

The favorable trend in gross volume and net income of McGraw Hill Publishing Company continued through the third quarter. For the nine months ended September 30 gross income on a consolidated basis amounted to \$38,957,727, which reflects an increase over 1950 of \$4,673,444 or 13.6%. The increase is principally in magazine advertising volume.

Net income for the nine months, after all charges and taxes, amounted to \$2,324,344 or at the rate of \$5.22 per share on the 444,900 shares outstanding at the close of the period. For the nine months of 1950 comparable figures were \$2,461,793 and \$5.31 per share. The amount set aside for Federal income and excess profit taxes for the nine months of 1951 was \$3,692,925, or \$1,754,451 in excess of the allowance for 1950. Since company's last report Congress has passed and the President has signed, a bill increasing Postal rates for mailing magazines by 30%. This increase will take effect in three yearly steps beginning on April 1, 1952.

The increase in postage rates and taxes along with increasing mechanical expenses and other costs emphasize the importance of constantly appraising the company's price structure if a fair profit margin is to be maintained. The management is constantly studying the level of prices with that in mind and corrective measures will be taken promptly as the occasion may demand.

Dividends this year have totalled \$3, the same as paid in 1950.

Federated Department Stores

"I hear that Federated Department Stores showed a moderate decline in earnings over recent months and was interested to know the reason. Also any other pertinent data you have on the company."

S. F., St. Louis, Missouri

Federated Department Stores reported unaudited net income of \$747,903 after Federal taxes on income for the 13 week period ended August 4, 1951 equal to per share earnings of 19 cents on the common stock. This compares with net income of \$2,548,684 and common stock earnings of 74 cents a share in the 13 weeks ended July 29, 1950.

For the 53-week period ended August 4, 1951, net income after Federal taxes totalled \$15,834,531 providing per share earnings of \$4.64 on the common. This compared to net income of \$15,864,267 and per share earnings of \$4.89 in the 52-week period ended July 29, 1950.

Sales for the quarterly period totalled \$86,261,016, an increase from sales of \$84,276,984 for the similar period of 1950. Net sales in the 53 weeks ended August 4, 1951 amounted to \$402,264,016 compared to \$358,833,662 for the 52 week period ended July 29, 1950.

Earnings per share of common stock are calculated on the average number of shares outstanding during the period, adjusted to reflect the 20% stock dividend of June 29, 1951. This report does not include Sangers, Dallas, Texas which was acquired as of August 31, 1951. Its operations subsequent to that date will be included in future reports. The early months of this year, and particularly the second quarter was a period of correction following the abnormal conditions caused by the inception of the Korean war. The result has been lower than average earnings this year compared to an above average result last year.

For the first half of the current fiscal year ending August 4, 1951, earnings amounted to 77 cents per common share compared with \$1.47 a year ago, with most of the decline occurring in the seasonally low second quarter. These earnings are after making provision for Federal taxes on income at rates for the current year in excess of those required by adjusting tax legislature because of the retroactive taxation.

The Federated group includes Filene's in Boston, Bloomingdale's in New York, Abraham & Straus in Brooklyn, Lazarus in Columbus, Shillito's in Cincinnati, The Boston Store in Milwaukee, Foley's in Houston, Halliburton in Oklahoma City and Sanger's in Dallas.

Dividends in 1950 totalled \$2.08 a share and 62½ cents is the current quarterly rate.

Consolidated Grocers Corporation

"I have watched with interest recent sales and earnings of major grocery chains and have been wondering how the largest wholesale grocer, Consolidated Grocers Corporation has fared. Please submit recent earnings, dividends and outlook over coming months."

R. F., Providence, R. I.

Sales of Consolidated Grocers Corporation reached a new high and earnings were substantially increased during the fiscal year ended June 30, 1951.

Consolidated net sales for the year were $174,006,801, an increase of $20,673,078 or 13.48% over the $153,333,723 reported for the previous fiscal year.

Earnings before taxes reached $5,565,155, up 110% from $2,644,642 in the year ended June 30, 1950. Provision for Federal income taxes amounted to $2,642,545 as compared with $1,020,837 in the preceding year.

Net earnings after federal income taxes were $2,922,611. After preferred dividends, this is equivalent to $3.18 per share on the average number of common shares outstanding during the year. In the 1950 fiscal year, net earnings after taxes totalled $1,633,805 or $1.71 a share on the 867,492 common shares then outstanding.

On April 30, 1951, 66,542 shares of common stock were issued in connection with the acquisition of Gentry, Inc. increasing the total outstanding to 934,034 shares. Based on this figure, earnings for the year would be equal to $2.99 a share. However, since the earnings of the Gentry operations were not available to Consolidated Grocers in the first 10 months of the fiscal year, the $3.18 average figure gives a truer picture of company's operations.

Although inventories were substantially larger than they were at the close of the 1950 fiscal year, the company believes its inventory situation to be in a sound position. Conditions in the food industry are favorable and outlook over coming months appears satisfactory. The crops harvested during the 1951 growing and packing season should assure an adequate supply.

Dividends in 1950 totalled $1.00 per share and the current quarterly rate is 37½ cents per share.

Standard-Thompson Corporation

"Please submit recent fiscal year sales and earnings of Standard-Thompson Corporation and also what new products the company has developed recently."

R. B., Mansfield, Ohio

Standard-Thompson Corporation showed for the fiscal year ended May 31, 1951, net sales of $11,025,606. This compares with $7,093,622 in the previous fiscal year, a gain of 55%, setting a new all-time high. Net profit after Federal income and excess profit taxes of $1,241,000 amounted to $764,931. This was equal to $1.53 per share on the 499,687 shares of common stock outstanding. These figures compare with taxes of $336,000 and net profit of $521,831, equal to $1.04 per share on the same number of common shares in the fiscal year ended May 31, 1950. The gain in final net profit was 47%.

During the year the company sold an additional $1,500,000 of 5% debentures due September 1, 1967. Proceeds were used to pay all outstanding bank loans and a Reconstruction Finance Corporation mortgage. The balance of the funds were added to working capital. Net working capital as of May 31, 1951, was $3,187,776 as compared with $2,168,314 in the previous year. Cash and Government securities which totalled $2,136,203, are almost equal to total current liabilities of $2,435,446. Total current assets amounted to $5,623,222.

Military orders have been increasing and the total backlog was last reported as in excess of **$10** million.

New products developed included fuel and air pressure valves for aircraft. Bellows for jet engine exhausts are now in volume production, including a special type bellows for shaft sealing of military tanks. The company's dry ice refrigeration units which have been on test runs over the southern Pacific lines carrying frozen foods have successfully completed a number of transcontinental trips maintaining zero temperatures throughout.

Dividends in 1950 totalled 20 cents per share and 10 cents was paid in the first half of the current year.

Realistic Approach to New Selectivity

(*Continued from page* 269)

yields have been a general condition for some time, reflecting the unwillingness of investors to put a high valuation on earnings and dividends under such abnormal conditions as have prevailed in recent years and continue to prevail.

Civilian business activity in soft goods, and commodity prices, apparently have now put their 1951 lows behind; but on the rising side the medium-term potentialities are believed to be rather limited. Government deficit spending will not be any factor until the second quarter of the new year; and not a large factor until the second half of the year. At this distance, it is a moot point whether, and to what extent, the maximum deficit spending will have inflationary consequences. It will probably be reached after private plant and equipment outlays—close to a $25 billion factor in the economy in 1951—have turned down; and the closer we get to well advertised peak arms outlays, the less reason will consumers have to indulge in anything like a buying spree. There is still the lurking background question: where do we go after the abnormal arms stimulus begins to taper off?

New Tests Ahead

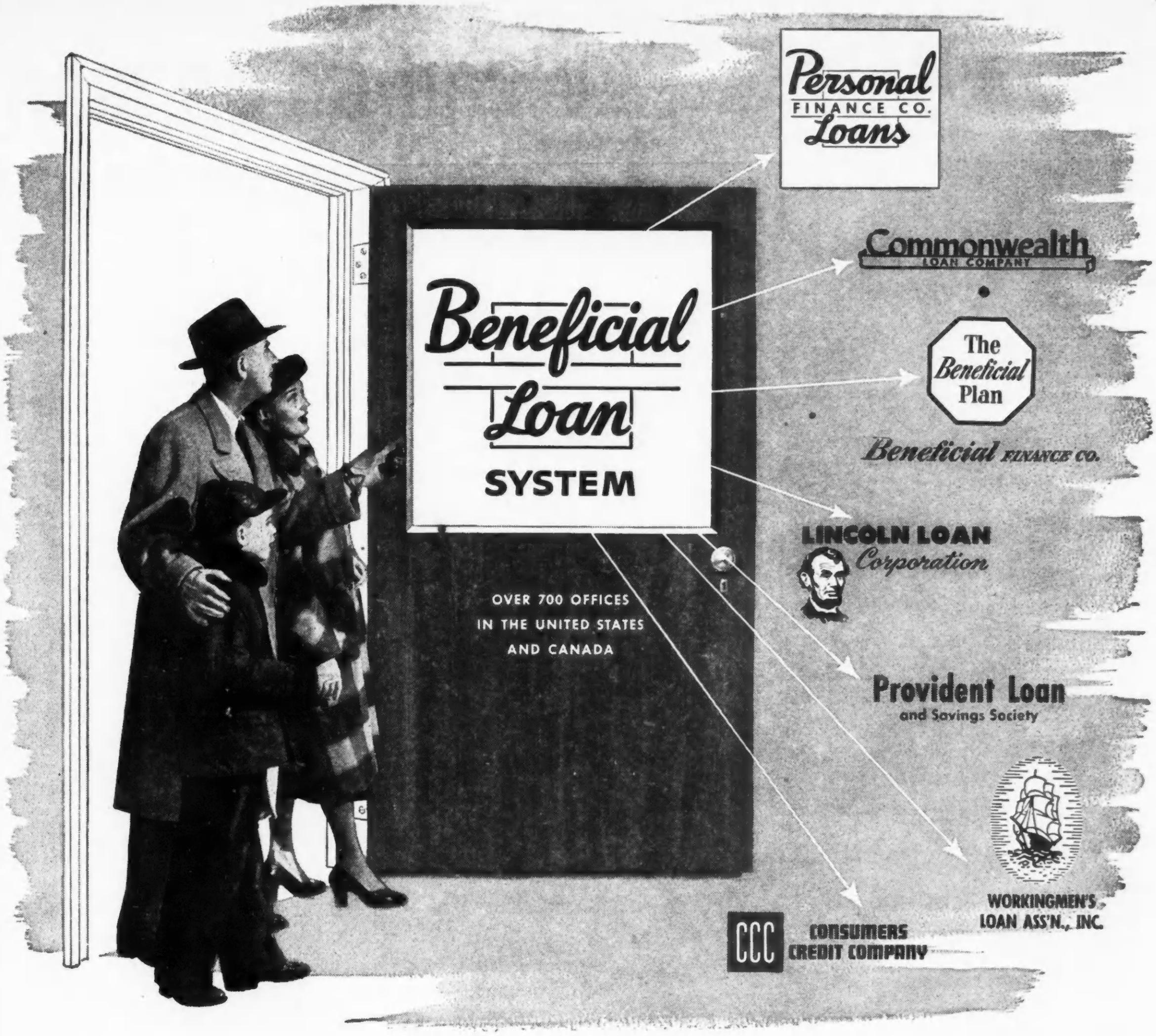
And there is no reason to think that the last chance to do some selective buying of common stocks during reactions has been seen. No one can now say with any assurance that the November lows will hold on subsequent tests, whether they are seen in nearby weeks or within the first 1952 quarter—Monday, December 10.

As I See It!

(*Continued from page* 267)

ment of these U.N. members against our strategy does not mean that they will desert us on crucial issues but apparently the American delegation is expected to plan its strategy "more carefully" in the future, that is pay more heed to the wishes and sensibilities (or fears) of these other countries. That, essentially, is exactly what Mr. Vishinsky wants. His sole purpose in Paris is to stir up trouble among the allies, to destroy their unity and their will to resist communism.

Knowing this, one should think that the non-communist delegates at the U.N. find it possible to pull together rather than against each other. Unfortunately there are still some who would favor appeasement rather than a firm common front, and the U.N. serves as an admirable stage for their activities. We are sure Mrs. Vishinsky thinks so. He does everything to help them along.



Doorway to over a million *beneficial* loans...

THROUGH the doors of these *subsidiary companies* of Beneficial Loan Corporation passed the people to whom more than a million small loans were made in 1951. These loans were family size, averaging $297.

When IS a loan beneficial

The *Beneficial* symbol above identifies these subsidiary companies and symbolizes their philosophy that a loan is beneficial *only* if it serves the best interests of the individual. Families who seek loans regard this symbol as the sign of a long established and responsible organization rendering a friendly and helpful loan service geared to family requirements.

Loans on character and personal possessions

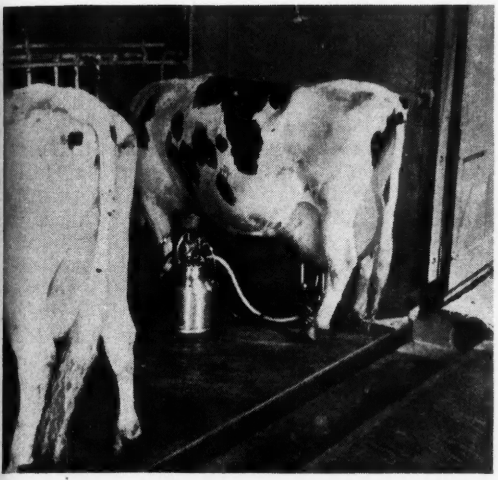
These are responsible people who need a *temporary loan* to meet an emergency or to take advantage of an opportunity. More than one-third own their homes . . . 71 per cent carry life insurance . . . 28 per cent have savings accounts . . . 20 per cent possess savings bonds or postal savings.

This *Beneficial* service is made possible because thousands of investors have made *their savings* available, through these companies, for this worthwhile purpose.

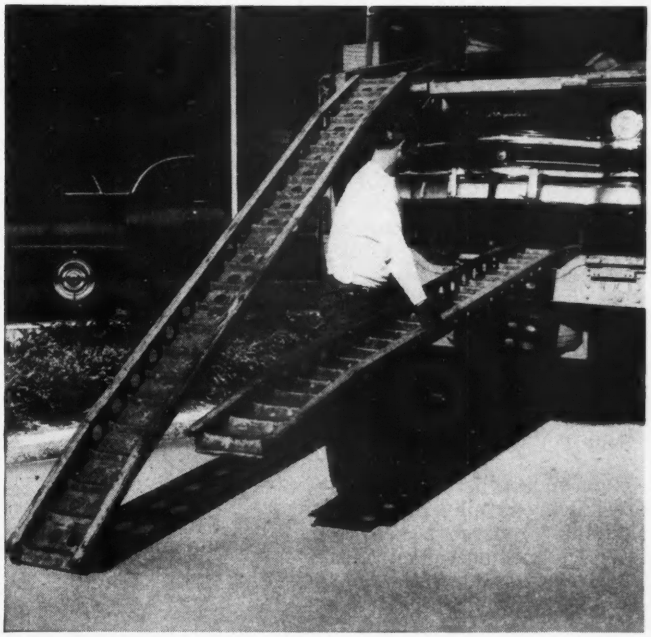
Beneficial Loan Corporation

WILMINGTON, DELAWARE

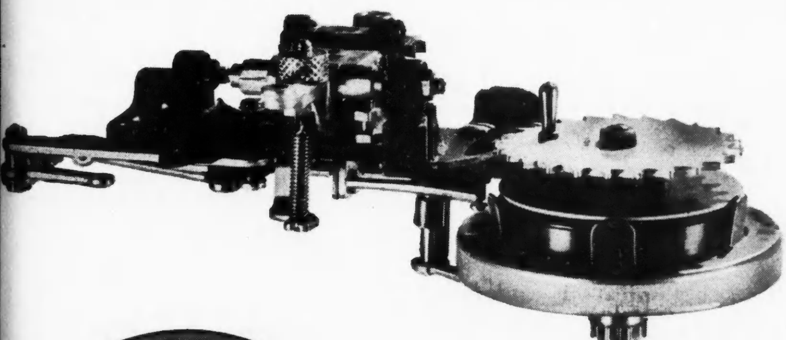
jobs so well



YOU'D BE SURPRISED how many products of United States Steel are used in a modern dairy barn. To name just a few: Universal Atlas Cement for durable floors; National Pipe for water lines and cowstalls; Stainless Steel for milking and milk-storage equipment, and frequently, steel roofing and siding for the barn itself.



EVER WONDER how they get those new cars 'way up there on those big auto trailers? Here's how . . . by the use of steel loading skids. These steel skids must be strong enough to support the heaviest cars. And although 12 feet long, they must be light enough for one man to handle. That's why many of them are made of strong, weight-saving U·S·S COR-TEN steel, one of the famous high-strength steels made by U.S. Steel.



THE SPRING'S THE THING that keeps many machines for home and office operating smoothly and efficiently. This typewriter spring, for example, furnishes driving power for the entire machine, operates the draw-bar, controls the spacing, works the ribbon mechanism. U.S. Steel manufactures millions of American Quality Springs every year for jobs of every description.

ALL ASHORE! It takes plenty of steel to produce military equipment like these Marine Corps Amtracks. Today, practically all units of the industry, including United States Steel, are steadily expanding their steel-producing capacity to help meet both defense and everyday needs.

FACTS YOU SHOULD KNOW ABOUT STEEL

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The Shift from Rearmament to Economic Aid for Europe

(*Continued from page* 281)

about $1,022 million will be far from sufficient. To save the French and British defense programs from collapsing, the President is expected to persuade Congress to divert some $580 to $600 million from the purchase of military weapons for Europe to economic support. In addition, the Europeans expect to get about $500 million in cash for the so-called off-shore procurement or military orders placed with European manufacturers. Hence Western Europe may have available during the present fiscal year some $2,100 million for purchases here, or about as much as she received during the 1950-51 fiscal year.

Just now, the prospects for General Eisenhower's project of a multi-national European Army by the end of 1952 are none too bright. But there is an urgent need of doing something, for 1952 may be a critical year in international relations. A lot may happen between now and next February when the Atlantic Pact Council is scheduled to meet in Lisbon. The three "wise men" of the executive committee of the N.A.T.O., Mr. Harriman (United States), M. Monnet (France) and Sir Edwin Plowden (Great Britain) who will be visiting all the 12 member countries between now and next February, should come out with some plan of how to implement the objective of the N.A.T.O.

But suppose the new experiment at international co-operation falls by the roadside because of the well-known "dragging feet" on the part of Western Europe, the French demand of security against Germany, and the German want of equality with France? What then? One of the alternatives is to do what General de Gaulle has always wanted to do: organize European defense as a coalition of national armies. The second choice—and no one is very enthusiastic about it—would be to rearm the Germans within the framework of the N.A.T.O. But since new admissions into the N.A.T.O. must be unanimously approved, there is little hope that the French would consent.

In February 1950, Mr. Acheson said that "the only way to deal with the Soviet Union is to create situations of strength". On the basis of the present economic and military picture in Western Europe, "the situation of strength" there remains pretty much a dream.

Established Companies in New and Unrelated Fields

(*Continued from page* 291)

too burdensome to overcome. All of which probably should be regarded as an exhortation to give careful attention to one's investment lest an unkind fate overtake them.

As it is, old names frequently have assumed new meanings. The methamorphosis of some of the aforementioned companies serves to illustrate the changing nature of business enterprises as management seeks new outlets for the investment of stockholders' funds, as old lines of business fade while other pastures look greener, or as the realities of business call for new decisions as to the nature of activity to be undertaken.

Investment Audit of National Steel Company

(*Continued from page* 284)

at the forefront in this respect. The operating margin in 1950 was 21.70% compared with 16.23% for Republic Steel and 15.42% for United States Steel. The net profit margin compares equally favorably; thus in 1950, National Steel showed a net ratio of 10.7%, Republic Steel 7.23% and United States Steel, 7.31%. For the first nine months of 1951, National Steel maintained its favorable operating ratio at 22.8%.

Other interesting differences exist between this and other steel companies with respect to percentages charged off for depreciation. With the exception of 1950, which showed a $5 million reduction approximately in charges for depreciation, depletion and amortization, National Steel generally charges for these items at a higher rate than other companies in the industry. In 1949, for example, such charges were 5.89% of sales against 2.84% for Republic and 5.22% for United States Steel. Had these charge-offs been of the same proportion as the other two companies, National Steel would have shown larger earnings on the stock. On the other hand, the normal conservatism of the company in its accounting methods is one of the elements which, in this case, reduces the speculative character generally typical of steel shares as a group.

Federal taxes, in common with all the other steel companies, is a burden of very great magnitude. For the first nine months of this year, National Steel's tax bill amounted to $73.2 million against $33.3 million for the same period last year. This additional amount of taxes was equivalent to not less than approximately $5.50 a share on the common stock. As a matter of fact, without the tax increase, the company's net per share for the first nine months would have been in excess of $10 a share against the $4.68 a share actually reported.

An unusual characteristic of National Steel is its simple capitalization. Funded debt consists of $40 million first mortgage 3s due in 1965. Capital stock, of which the M. A. Hanna Company owns 27 per cent, is outstanding to the amount of 7,362,045 shares of $10 par value.

Certificates of necessity have been obtained to expedite amortization of construction costs on additional facilities in Detroit and Weirton designed to expand capacity about 25 per cent by the end of the coming year. Acceleration of depreciation may have an adverse temporary effect on earnings in the next few years, but this should be offset by acquisition of efficient facilities which would be helpful in maintaining earnings in any subsequent period of keen competition.

Indicative of its financial strength and growth potentials, shares of National Steel are among the most generously appraised in relation to estimated earnings. Whereas typical steel stocks have been selling lately at seven to eight times share earnings (projected for 1951), National has been quoted at about nine times net per share. On such basis, it would appear that the shares are not unduly depressed, since the appraisal is about in line with good quality seasoned industrials around the all-time peak for the stock. Nevertheless, for portfolios that favor inclusion of a steel stock, National deserves consideration.

As stated, at the present price

of about 53, National Steel paying \$3 dividends annually yields over 5.5%. While this is a smaller return than that obtainable from other steel shares, it is a satisfactory return in view of the solidity of the company's dividend record. Of special importance in this respect is the company's low "break-even" point which permits it to operate profitably even during depressed business conditions. Practically without exception, no other steel company of size can claim such a record which is evidenced by the fact that none of them with the exception of National Steel have been able to continue dividend payments without interruption in the past two decades.

Increasing Your Income Through Tax-Exempts

(*Continued from page* 289)

these issues; aside from the fact that practically all are tax-exempt. In the first place, there are literally thousands of tax-exempts. Representing all the political subdivisions, state, county, district and municipal, they have been issued in practically every section of the country. Under the circumstances, it would be impossible for even the most experienced investors to appraise the investment qualities of more than a handful of such issues.

As a rule, larger investors are interested mainly in representative state issues and those of a number of leading cities such as New York, Boston, Chicago, San Francisco and the like; but these generally sell on a very low-yield basis. Most New York State and N. Y. City issues, for example, yield from as little as 1% to 1½%, depending on the maturity.

Higher yields are obtainable from "local" issues, such as country, district, irrigation and school bonds. However, such issues would be suitable investments mainly for residents in or near these localities as they would naturally possess greater knowledge concerning their background. With this provision, it should be perfectly possible to secure yields of from 2% to 2½% on these lesser issues, without at the same time sacrificing any undue degree of security. For example, for residents of California, the Imperial Irrigation District bonds, yielding from 2¼% to 2½%, depending on maturities, should prove a suitable investment. Some of the Chicago Sanitary District bonds yield from 2% to 2¼%.

Special types of bonds such as the so-called "revenue" bonds, secured by pledge of specific revenues from such facilities as bridges, tolls, water-works etc. also offer satisfactory yields for this class of security. For example, N. Y. Port Authority 2.20's of 1980 yield over 2¼%; Seattle, Wash. Lt. & Power Rev. 2¾s of 1968 yield over 2¼%, and some of the N. Y. City Housing Authority issues yield up to 2½%. Any contemplated investments in these issues or, in fact, in any tax-exempt issues should first be checked with expert opinion, however. This is especially true of new issues where the question of legality may enter, and which should be verified.

It is important to realize that tax-exempt issues are normally quoted on a yield-to-maturity basis. Where premiums above par

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exist, amortization should be allowed for. Furthermore, since these issues are universally sold on a serial basis, that is they mature in different amounts in different years, the investor should make certain that he is investing only in those maturities suitable for his purposes.

Generally, it is wiser to spread out these maturities over a period of time so that there is guarantee of a certain income in the required years, as well as return of capital when planned for. In this connection, the inclusion of tax-exempt bonds on a sliding scale of maturity is desirable as a means of providing for inheritance taxes. This could obviate the necessity, otherwise, of liquidating other securities at a disadvantageous time in order to meet estate taxes.

Since the prime purpose of investing in tax-exempts is income, the question of marketability is important. Issues which have uncertain marketability should be avoided as a forced sale on a poor market would impair the total income received and thus destroy the value of the tax saving. Generally speaking, the large state and municipal issues have the more dependable markets.

With these defects in mind, it nevertheless remains true that under present conditions of high taxes and living costs, tax-exempts offer individuals in the medium and higher brackets an opportunity to increase their income. If, in the next year or so, another boost in taxes should be ordered by Congress, by no means a remote possibility, the attraction of tax-exempts to tax-conscious investors would be still further enhanced.

Economic Implications of Revision in Defense Spending

(*Continued from page* 271)

certainly be sufficient to assure a very high level of business and employment but it also would lessen the threat of shortages and inflation. And once spending, by 1954, will be tapered down to an annual rate of $41 billion (including foreign military aid), the need for economic readjustments then will doubtless arise.

The idea of a ceiling on defense spending is neither new nor impractical. Some, including former Federal Reserve Board chairman Eccles, consider it essential for the country's fiscal health. It is all that and more. One might go as far as saying that it is inevitable under semi-mobilization conditions. Guns and butter, as well as the question of curbs and controls, therefore will likely remain a lively topic in 1952.

From the start, the guns and butter policy was a gamble on our ability to stay out of all-out war and every day we can do so, the odds on winning it are getting better. This, just as much as the goal of mobilization, must be borne in mind when listening to critics of the mobilization effort. The goal is not all-out arms production and the stockpiling of obsolescence but the building of a limited volume of new weapons and preparation for their mass production.

The big gain, if the gamble pays off and so far it has, is avoidance of complete disruption of the American economy which would be inevitable if total mobilization of industry had been attempted. Even with our limited program, a dangerous problem remains—how, after winding ourselves up tight in rearmament, we can later taper off without painful readjustments.

It is another reason why we should proceed sanely and realistically. If we do, we can have an effective armament program without sacrificing security. As a practical proposition, it is beginning to be realized that there is little point in handing out orders that cannot be filled for many months to come, obligating funds which it might be found wise later to devote to other and more immediate purposes. Hence we plan to take a "breather," to let production catch up with orders. It may or may not turn out to be money saved, but at least it may put a halt to the shoveling out of it, and pave the way for more judicious spending.

For Profit and Income

(*Continued from page* 293)

tions — that will be a favorable stock market factor, but it is a fair distance ahead. Meanwhile good new bonds can be bought at the best yields in many years, with a better than even chance of showing buyers appreciable profits within a year or less.

Declining Corporate Liquidity

(*Continued from page* 273)

Accelerating these payments during the early part of next year places an additional burden on corporations who will be compelled to draw off sizeable amounts of cash for this purpose.

Some companies will find this especially onerous since they had been accustomed to finance part of their working capital requirements out of hitherto permissible delayed payments of tax liabilities. Hence, they will find this temporary source of credit restricted in part. The situation will be reversed in the last half of 1952, when tax requirements will be smaller. In the meantime, however, the pinch will be felt.

To add to these difficulties, individual programs of plant expansion and purchase of new equipment, most of it due to the defense effort, often require large sums. Approximately two-thirds of such expenditures are financed through retained earnings and depreciation reserves, the balance through new financing. This is now running at the rate of about $10 billion annually, and will probably be at a higher rate in the earlier part of 1952. It is true that under the Treasury's accelerated amortization provisions, allowances will produce tax savings spread over a period of five years, but this will not lessen the drain on cash resources now current. Actual relief is not expected until possibly towards the end of next year, when expenditures for expansion of plant and equipment should have levelled off.

Among some of the medium-sized companies, the problem of deciding whether to go ahead with expansion programs is rendered acute because they cannot do this and find the extra money for taxes at the same time. Many of them have the poorest ratio of cash and government securities to current liabilities in years. Thus companies in the $1-$5 asset class, for example, are down to a ratio of 54% whereas a year ago it was 86%. This is an extremely sharp decline and illustrates why so many of these companies now have financing problems whereas a year or two ago, they considered themselves more or less immune.

Nor are the companies who are in the next group, with assets from $5 million to $100 million, in a much better position. Their ratio of liquid assets to current liabilities of about 68% in the second quarter of 1951, and probably lower by now, compares with a ratio of 103% a year ago last June. Over-all working capital figures do not look much better with current assets 2.5 times current liabilities against 3.29 a year ago.

The very large companies, those with $100 million of assets or over, also show a drop in their liquidity ratio, down to 90% against 122% a year ago. It will be noticed, however, that this group seems very much stronger from the viewpoint of liquidity since even the current lower liquid asset holdings come close to covering total current liabilities, a position which is the goal of most companies. Ratio of current assets to current liabilities in this group is now 2.44 against 3.00 a year ago.

A General Trend

It is clear that a more or less general trend toward working capital stringency has been established, though there are many exceptions. The question then arises as to whether this will force a more conservative dividend policy in some cases. At present, roughly 50% of net earnings are being paid out in dividends, on the average. In the earlier part of the year, only 40% was disbursed.

With the need for working capital steadily expanding and the difficulty of maintaining adequate cash balances more acute than at any time in the past several years, it would seem that managements have arrived at a point where they must give first consideration to financial requirements, particularly in view of the fact that the margin between net earnings and dividend rates has been steadily narrowed on account of lower profit margins and higher taxes.

The future of dividends, therefore, depends on the relationship between shrinking corporate liquidity and the narrowing spreads between earnings and dividends. Where both of these factors are becoming unfavorable simultaneously, downward revisions in dividend payments, especially extras, might be expected on the part of conservative managements. In fact, this might be

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the only means, in the case of some companies, of retaining the required amount of cash with which to do business efficiently. This is especially true of the smaller and medium-sized companies, but even some of the larger ones may not hesitate to make dividend adjustments in deference to current and prospective corporate requirements.

It follows that investors seeking light on dividend prospects must give special heed these days to their companies' working capital position, especially the ratio of cash and government bonds to current liabilities, as well as actual earnings. In this connection, the accompanying table giving essential data on the status of corporate liquidity of a number of representative concerns should be of assistance. In the following, we discuss briefly the cash position and dividend prospects of several of these companies.

Addressograph - Multigraph Corp. between July 31, 1951, the last fiscal year end, and the year previous showed a sharp decline in liquidity, with the ratio of cash and marketable securities to current liabilities down to 76.2% from 136.0%. While cash assets rose $1 million from $10.2, current liabilities increased $7.2 million, with a rise of $4.7 million in inventories. The ratio of current assets to current liabilities is down from 3.4 to 2.3. This turn in the financial condition is offset to some extent by the continued high earnings of the company, $6.84 a share for fiscal 1951 compared with an annual dividend rate of $3.50 per share. Earnings for fiscal 1952 will probably be somewhat lower, owing to higher costs and taxes, but no change in dividend policy is indicated.

Bigelow-Sanford Carpet Co.'s decline in the ratio of cash assets to current liabilities from 22.4% to 14.0% must be viewed in the light of the pronounced drop in earnings which has taken place this year, with the company winding up with a deficit of 71 cents a share in the third quarter. Its difficulties, common to the carpet trade, have forced the company to increase bank borrowings by about $5.7 million and notes payable by $12.2 million, to finance an increase of $17.6 million in inventories. This may prove to be the bottom for the industry but unless there is a pick-up soon, the combination of poor earnings and a less favorable financial position would leave the possibility of continuation of the dividend on the present basis open to some question.

General Motors Corp.'s decline of $726.4 million in cash and securities since September 30, 1950 is striking evidence of the changes which have taken place in its liquidity factor. The decline is due principally to an increase in inventories amounting to $333.7 million, and such items as $150 million in additions to property, $52 million in prepayments and about $80 million in investments in subsidiaries and miscellaneous items. The ratio of cash and securities to current liabilities at the end of the third quarter was 84.2%, a very large drop from 196.5% the year previous.

For the first nine months, earnings were $4.15 a share compared with $7.91 in the same period last year. With dividends at $4 a share annually, the margin of earnings is becoming rather narrow, especially in view of the sharp change in the company's financial position. Last year, $6 a share in dividends was paid, a reflection of the great prosperity of the period. The company has always trimmed its dividend policy to meet actual operating conditions.

Minneapolis-Honeywell Regular Co. also shows a considerable change, with the ratio of liquid assets to current liabilities down to 23% from 46.5% a year ago. This occurred against a background of an increase of $24.6 million in inventories, a great part of which was incurred as a result of defense orders, and a $10 million rise in current liabilities. Improvements to property took about $6.6 million. Additions to inventory and plant were financed mainly through the sale of $10 million bonds and $16 million preferred stock. There is also a new item of $2 million in notes.

These changes took place in a time of declining earnings, with $2.52 a share reported for the first nine months of 1951 against $3.79 for the same period last year. The current narrowing of the margin of earnings over the annual $2 dividend rate deserves attention

WHAT AND WHEN TO BUY IN 1952

All of us must expect 1952 to be a year of change and revision — in defense versus civilian production, in politics, in taxes, in our economy. For the investor all these developments boil down to the simple problem "*what and when should I buy — when should I take profits and reinvest — for income of 6% and more plus strong capital growth in 1952?*"

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as the company rarely pays out more than 60%-70% earnings in dividends.

Similar trends are found among the other companies listed in our table. While in some cases, liquid assets holdings have not shown radical changes, increases in current liabilities have been pronounced, and so was the rise in inventory valuations as study of the table will show. In most cases, the resultant narrowing of the liquidity ratio has been considerable.

Dollar Averaging with Growth Shares

(*Continued from page* 275)

for reverses in his company's earnings.

If such reverses should prove to be of a more than temporary nature, or if the company should show inability to meet new competitive conditions, the stock would suffer impairment and the entire basis of the "dollar averaging" plan would be weakened. It is for this reason that the record of the company must be carefully scrutinized, as a guide to its underlying strength in all conceivable conditions. Generally, companies dominant or nearly dominant in their industries qualify in this respect.

Dividend records are also generally a good guide, as companies which have been able to pay dividends for a long period of time under varying conditions supply. the needed element of relative safety.

An essential requirement in "dollar averaging" is the prospect of growth. This does not merely mean the possibility of higher earnings, due to generally improving business conditions, but the individual dynamism of the company which through expansion into new products and new fields is constantly widening its base of future earnings.

With these general requirements in mind, the investor who is about to embark on the "dollar averaging" plan, should bear in mind that in the final analysis, no plan has yet been devised or can be devised which is absolutely fool-proof. The best regulated plans can go wrong, if there is too much dependence on purely automatic operation. Just because the investor has made the most careful preparation in the selection of his stock does not preclude the necessity of constant supervision. Any threat of a fundamental change in the position of his company should be taken as a signal that the stock should be liquidated, regardless of the original plan.

Investors, however, should be careful to distinguish between declines caused by general market conditions and those caused by fundamental company weakness. A general market decline offers the investor the opportunity for averaging at a lower price which is the integral part of the plan, whereas a decline caused by serious internal weakness is quite another matter, for there is not likely to be a rebound.

Investment on the "dollar averaging" plan can be limited to a single stock, or can be spread over several different stocks. Since this is essentially a long-range program, the best results can be secured through a reasonable amount of diversification. Variety, however, is necessarily limited by the amount of funds available. In this case, excellence of choice is more desirable than mere diversity.

Also it should need no particular emphasis that all purchases should be on a strictly cash basis and that the investor at all times should refrain from purchases on margin in investing on the "dollar averaging" plan. Even on the present restricted basis of Stock Exchange margin requirements, a severe market break could cause margin calls and possibly a forced sale thus destroying the entire plan.

Compounded Growth

A discussion of the plan should not be concluded without reference to the element of compounded growth. Serious application of the plan to the right kind of stocks offers the investor the opportunity to compound his own holdings at different prices through additional investments from year to year. Thus, he benefits not only from purchasing at good average prices but also from the income received from the additional shares. This income, in turn, can be used for further purchases, a compounding operation which can be very profitable at the end of a period of years.

He also benefits from his compounded share of the retained earnings of his company. Progressive managements, when conditions justify, put these savings to work through expansion, with these new investments providing further opportunities for increased earnings and higher dividends. Thus he has a double stake—in the increased size of his own holdings, and in the potential use of retained earnings by his company.